

# **ATTACHMENT E**

## **MEMO RECOMMENDATION**

# Memorandum

To: Dan Matusiewicz, Finance Director  
City of Newport Beach

From: Michael Busch, Chief Executive Officer  
Urban Futures, Inc.

Date: June 5, 2020

Re: City of Newport Beach  
Assessment District No. 111  
Limited Obligation Improvement Bonds 2020 Series A

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## **Recommended Structure**

In connection with the City of Newport Beach \$2,412,000 Assessment District No. 111, Limited Obligation Improvement Bonds, 2020 Series A (the "Bonds"), Urban Futures, Inc. ("UFI"), as Municipal Advisor, has evaluated various financing options available to the City, including method of sale. We recommend the City authorize a private placement of its Bonds with City National Bank (the "Bank" or "City National") at a rate of 2.35%. Despite the extreme volatility that the municipal market has experienced in the last few months since the onset of the COVID-19 pandemic, the rate offered by City National is more competitive than a public sale and the best alternative for mitigating interest rate risk. The following discussion details the approach and analyses undertaken to reach our recommendation.

## **Private Placement versus Public Offering**

On behalf of the City, UFI solicited proposals from Underwriting/Placement Agent firms for the Underground Utility Assessment District No. 111 financing, which were due on February 27, 2020. We asked firms to consider the use of a private placement versus a negotiated public offering as well as provide indicative rates for each method of sale. As of the date of the proposals, two firms indicated a private placement would be more favorable to the City, while two other firms recommended a public sale. Based on their strong proposal, experienced team, and competitive fees, UFI recommended engaging Hilltop Securities as Underwriter/Placement Agent.

Upon their hire at the beginning of March, Hilltop Securities solicited private placement bids from nine placement banks and received three bids ranging from 2.20% to 2.53%. BBVA offered the lowest bid at 2.20% and a rate lock of 45 days. Alternatively, City National offered the second lowest rate of 2.35% with a generous rate lock of 90 days. Opus offered a rate of 2.53% with a 60-day rate lock. We compared all of the private placement bids against a public offering scenario, using public offering rates provided by Hilltop Securities as of March 5, 2020. All of the private placement bids yielded better results than the public offering option. Additionally, a private placement is estimated to save approximately \$50,000 in costs of issuance and requires less staff time compared to a public sale, which involves the preparation of an offering document and continuing disclosure agreement.

### Summary of Private Placement Bids vs. Public Market Transaction (As of March 5, 2020)

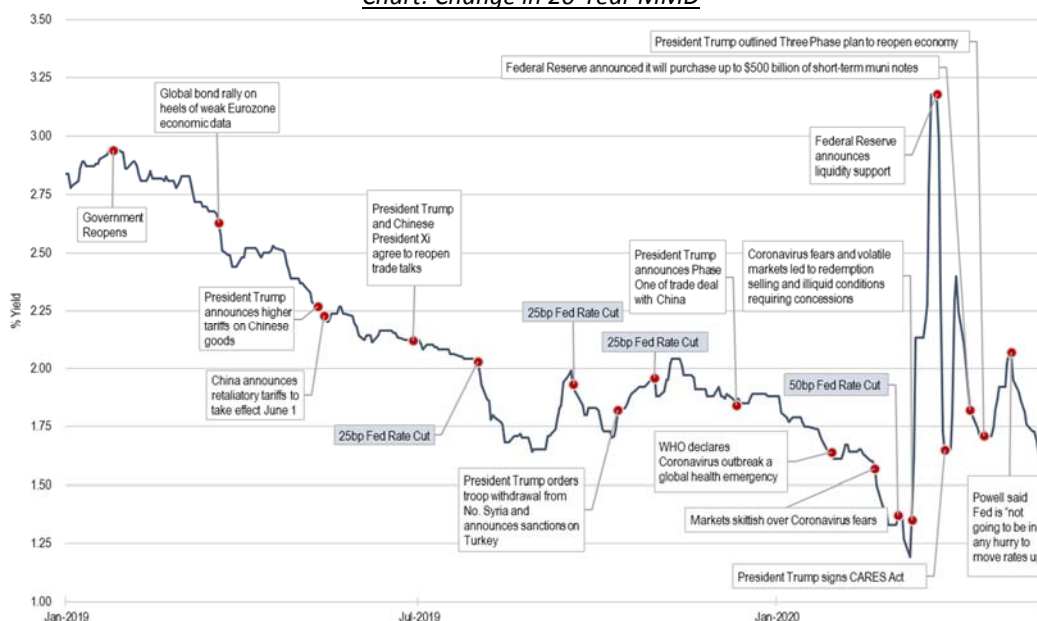
Financing Alternative	Max Par	Interest Rate	Avg Annual DS	Rate Lock
BBVA	\$2,821,186	2.20%	\$175,883	45 days
City National Bank	\$2,821,186	2.35%	\$178,403	90 days
Opus*	\$2,821,186	2.53%	\$181,470	60 days
Interest rates set at final pricing				
Public Offering	\$2,820,000	2.125 - 4.0%	\$191,721	

\*Opus has since been acquired and exited the public finance sector

### Unprecedented Municipal Market Environment

At the time the initial bids were received in the beginning of March 2020, municipal interest rates reached all-time historical lows as California bonds remained in high demand. Shortly thereafter, the financial markets entered into unprecedented volatility due to the spread of COVID-19 and the imposition of stay-at-home orders across the U.S and around the world. On March 19<sup>th</sup>, MMD (the benchmark index for tax-exempt municipal securities) increased by 50 basis points across all maturities, which represented one of the largest single-day moves in municipal market history. For several weeks in March, the sale of municipal securities in the public market was severely disrupted and dislocated and hundreds of issuers were forced to delay transactions or execute them at much higher spreads.

*Chart: Change in 20-Year MMD*



### Locking in the Optimal Option for the City

The chaotic and extremely volatile financial markets put the City's financing in jeopardy, particularly with a public offering option. The financing team immediately reached back out to the three banks with the following responses: 1) City National confirmed their 2.35% rate with a 90-day lock; 2) BBVA indicated that they would re-lock the rate with a 45-day rate lock; 3) Opus indicated that they had been acquired and would be exiting the public finance sector. Given a municipal market environment in which rates were moving up to 50 basis points in one day, the financing team concluded that City National's offer to guarantee a very attractive 2.35% rate for 90 days (the only option that would guarantee the rate through closing of the Bonds) was the most optimal option for the City. After executing a term sheet (subject to

City Council approval) with City National, the Bank agreed to extend its rate lock another week in order to accommodate the City's desired closing date of June 26, 2020.

### **Financing Terms and Results**

After selecting City National, the financing team finalized terms with the Bank that maximize flexibility for the City. Ultimately, the Bank agreed to the following terms:

- \$2,412,000 Par Amount (final par after cash collections)
- Final Maturity of 9/2/2040
- Semi-Annual Interest Payments on 3/2 & 9/2
- Principal Payments on 9/2
- 2.35% Interest Rate Locked through June 26, 2020
- 7-Year Call Option at Par on any Interest Payment Date
- DSRF Sized at 5% of Par
- Bank Fees of \$7,500

The final terms generate \$2.2 million for the Improvement Fund, a TIC of 2.35%, total net debt service of approximately \$2.93 million, and average annual debt service of approximately \$152,000.

### **Conclusion**

While the markets have recently improved and stabilized, with the benchmark 20-year rate currently at 1.49%, down from its March 23<sup>rd</sup> peak of 3.18%, significant uncertainty remains in the municipal market, particularly for small non-rated transactions that are not general obligation or water/wastewater credits. During the month of April, only one California land-secured bond transaction priced in the public market; and since May 1<sup>st</sup>, only 9 such transactions have priced at generally wider credit spreads. Liquidity remains an important consideration as volatile markets tend to favor large, liquid issues, resulting in a pricing penalty for smaller issues. The comparables listed in the Appendix demonstrate that with the currently negotiated rate and terms with City National, the Assessment District No. 111 Bonds price better than the comparables, including the City's own Assessment District No. 116 and 116B Bonds issued last year. Additionally, the City was able to achieve a more favorable call option than all of the comparables, most of which require a premium for a 7-year call. Ultimately, subject to City Council approval, the City was able to lock in a very attractive interest rate of 2.35% with favorable terms, thereby avoid taking on interest rate risk in a volatile market, while minimizing costs of issuance and staff time.

### Appendix: Public Market Land Secured Pricing Comparables

	Newport Beach AD No. 111 Limited Obligation Imp. Bonds 2020 Series A <sup>1</sup>				Chino CFD 2003-3 (Improvement Area No. 7) 2020 Special Tax Bonds				Beaumont CFD No. 93-1 (Improvement Area No. 8F) 2020 Special Tax Bonds				Irvine USD CFD No. 06-1 (Portola Springs) Special Tax Refunding Bonds, Series 2020			
Par	\$2,412,000				\$18,615,000				\$12,780,000				\$6,400,000			
Development Status	Fully built out; 279 parcels of which 82 parcels had fully prepaid assessments				Planned for 710 units; 466 have been conveyed to individual homeowners				Planned for 294 single family homes; 224 have been conveyed to individual homeowners				491 attached and detached dwelling units, fully built out and conveyed			
Value-to-Lien	VTL: 83.8: 1				VTL: 7.89: 1				VTL: 8.14: 1				VTL: 22.3: 1			
Sale	6/26/2020				6/4/2020				6/3/2020				5/20/2020			
UW/Placement Agent	Hilltop Securities				Raymond James				Stifel				Stifel			
True Interest Cost	2.35%				3.64%				3.64%				2.80%			
Optional Call	9/2/2027 @ 100				9/1/2030 @ 100				9/1/2026 @ 103; DTP 9/1/2029				9/1/2027 @ 103; DTP 9/1/2030			
	Coupon	Yield	MMD	Spread	Coupon	Yield	MMD	Spread	Coupon	Yield	MMD	Spread	Coupon	Yield	MMD	Spread
2020													3.000%	1.100%	0.13%	97 bps
2021					4.000%	1.150%	0.16%	99 bps	4.000%	1.010%	0.16%	85 bps	4.000%	1.190%	0.12%	107 bps
2022					4.000%	1.400%	0.19%	121 bps	4.000%	1.290%	0.19%	110 bps	4.000%	1.350%	0.20%	115 bps
2023					4.000%	1.600%	0.23%	137 bps	4.000%	1.430%	0.23%	120 bps	4.000%	1.500%	0.28%	122 bps
2024					3.000%	1.870%	0.30%	157 bps	4.000%	1.550%	0.30%	125 bps	4.000%	1.640%	0.39%	125 bps
2025					3.000%	2.000%	0.38%	162 bps	4.000%	1.680%	0.38%	130 bps	4.000%	1.760%	0.45%	131 bps
2026					2.000%	2.220%	0.51%	171 bps	4.000%	1.870%	0.52%	135 bps	4.000%	1.960%	0.61%	135 bps
2027									5.000%	2.020%	0.62%	140 bps	4.000%	2.100%	0.70%	140 bps
2028									4.000%	2.150%	0.70%	145 bps	4.000%	2.220%	0.77%	145 bps
2029					4.000%	2.520%	0.74%	178 bps	4.000%	2.250%	0.75%	150 bps	4.000%	2.320%	0.84%	148 bps
2030									4.000%	2.400%	0.85%	155 bps	4.000%	2.430%	0.93%	150 bps
2031									4.000%	2.550%	0.95%	160 bps	4.000%	2.550%	1.03%	152 bps
2032					4.000%	2.900%	1.04%	186 bps	5.000%	2.050%	1.05%	100 bps	4.000%	2.670%	1.12%	155 bps
2033									4.000%	2.850%	1.15%	170 bps	4.000%	2.800%	1.25%	155 bps
2034									4.000%	2.930%	1.18%	175 bps	4.000%	2.830%	1.28%	155 bps
2035					3.000%	3.125%	1.23%	190 bps					4.000%	2.880%	1.33%	155 bps
2036									4.000%	3.020%	1.27%	175 bps				
2037					4.000%	3.170%	1.32%	185 bps								
2038																
2039																
2040	2.350%	2.35%	N/A	N/A	4.000%	3.290%	1.44%	185 bps	4.000%	3.190%	1.44%	175 bps				
2041																
2042																
2043																
2044																
2045					4.000%	3.450%	1.600%	185 bps	4.000%	3.350%	1.60%	175 bps				
2046																
2047																
2048																
2049																
2050					4.000%	3.500%	1.650%	185 bps	4.000%	3.400%	1.650%	175 bps				

1. Reflects private placement bid from City National Bank. Transaction scheduled to close 6/26/20. All other comparables provided are for public market transactions.

### Appendix: Public Market Land Secured Pricing Comparables

	Jurupa Community Services District CFD No. 45 Special Tax Bonds, 2020 Series A				Eastern Municipal Water District CFD No. 2016-74 IA C (Menifee Town Center) 2020 Special Tax Bonds				Newport Beach AD No. 116 Limited Obligation Imp. Bonds 2019 Series A				Newport Beach AD No. 116B Limited Obligation Imp. Bonds 2019 Series B			
Par	\$4,380,000				\$4,145,000				\$1,575,000				\$665,000			
Development Status	Planned for 300 single family detached homes; 250 have been conveyed to individual				Planned for 125 single family detached homes; 75 have been conveyed to individual				Fully built out Assessment District; 103 parcels of which 21 parcels fully prepaid assessments				Fully built out Assessment District; 53 parcels of which 14 parcels had fully prepaid assessments			
Value-to-Lien	VTL: 11.4: 1				VTL: 8: 1				VTL: 49: 1				VTL: 46.9: 1			
Sale	5/14/2020				5/13/2020				7/9/2019				7/9/2019			
UW/Placement Agent	Stifel				Piper Sandler				Stifel				Stifel			
True Interest Cost	3.63%				3.63%				2.84%				2.85%			
Optional Call	9/1/2027 @ 103; DTP 9/1/2030				9/1/2027 @ 103; DTP 9/1/2030				9/2/2026 @ 103; DTP 9/2/2029				9/2/2026 @ 103; DTP 9/2/2029			
	Coupon	Yield	MMD	Spread	Coupon	Yield	MMD	Spread	Coupon	Yield	MMD	Spread	Coupon	Yield	MMD	Spread
2020	4.000%	1.450%	0.45%	100 bps	3.000%	1.480%	0.52%	96 bps	2.000%	1.20%	1.32%	-12 bps	2.000%	1.20%	1.32%	-12 bps
2021	4.000%	1.650%	0.51%	114 bps	3.000%	1.830%	0.57%	126 bps	2.000%	1.39%	1.22%	17 bps	2.000%	1.39%	1.22%	17 bps
2022	4.000%	1.770%	0.58%	119 bps	3.000%	1.970%	0.64%	133 bps	2.000%	1.50%	1.23%	27 bps	2.000%	1.50%	1.23%	27 bps
2023	4.000%	1.900%	0.67%	123 bps	4.000%	2.160%	0.73%	143 bps	2.000%	1.61%	1.24%	37 bps	2.000%	1.61%	1.24%	37 bps
2024	4.000%	2.020%	0.76%	126 bps	4.000%	2.350%	0.81%	154 bps	2.000%	1.73%	1.28%	45 bps	2.000%	1.73%	1.28%	45 bps
2025	4.000%	2.200%	0.82%	138 bps	4.000%	2.510%	0.87%	164 bps	2.000%	1.860%	1.34%	52 bps	2.000%	1.860%	1.34%	52 bps
2026	4.000%	2.250%	0.87%	138 bps	4.000%	2.660%	0.92%	174 bps	2.000%	1.970%	1.40%	57 bps	2.000%	1.970%	1.40%	57 bps
2027	4.000%	2.350%	0.92%	143 bps	2.500%	2.770%	0.98%	179 bps	2.000%	2.090%	1.47%	62 bps	2.000%	2.090%	1.47%	62 bps
2028	5.000%	2.450%	0.98%	147 bps	5.000%	2.820%	1.03%	179 bps	2.000%	2.210%	1.54%	67 bps	2.000%	2.210%	1.54%	67 bps
2029	4.000%	2.530%	1.05%	148 bps	5.000%	2.890%	1.10%	179 bps	2.250%	2.330%	1.61%	72 bps	2.250%	2.330%	1.61%	72 bps
2030	4.000%	2.700%	1.15%	155 bps	2.750%	3.040%	1.20%	184 bps	2.250%	2.450%	1.68%	77 bps	2.250%	2.450%	1.68%	77 bps
2031	4.000%	2.850%	1.25%	160 bps	3.000%	3.140%	1.30%	184 bps	2.500%	2.590%	1.73%	86 bps	2.500%	2.590%	1.73%	86 bps
2032	4.000%	2.950%	1.35%	160 bps	3.000%	3.240%	1.40%	184 bps	2.625%	2.700%	1.79%	91 bps	2.625%	2.700%	1.79%	91 bps
2033	4.000%	3.000%	1.39%	161 bps	3.000%	3.250%	1.43%	182 bps	2.750%	2.800%	1.84%	96 bps	2.750%	2.800%	1.84%	96 bps
2034					3.125%	3.320%	1.48%	184 bps	2.750%	2.900%	1.89%	101 bps	2.750%	2.900%	1.89%	101 bps
2035					3.125%	3.360%	1.52%	184 bps	2.750%	2.940%	1.93%	101 bps	2.750%	2.940%	1.93%	101 bps
2036					3.250%	3.410%	1.57%	184 bps	2.750%	2.980%	1.97%	101 bps	2.750%	2.980%	1.97%	101 bps
2037					3.250%	3.450%	1.61%	184 bps	3.000%	3.000%	2.01%	99 bps	3.000%	3.000%	2.01%	99 bps
2038					3.375%	3.490%	1.65%	184 bps	3.000%	3.040%	2.05%	99 bps	3.000%	3.040%	2.05%	99 bps
2039					3.375%	3.530%	1.69%	184 bps	3.000%	3.080%	2.09%	99 bps	3.000%	3.080%	2.09%	99 bps
2040																
2041																
2042	4.000%	3.370%	1.730%	164 bps												
2043																
2044																
2045					3.500%	3.68%	1.85%	183 bps								
2046																
2047																
2048																
2049	4.000%	3.540%	1.850%	169 bps												
2050					3.625%	3.760%	1.900%	186 bps								