

**CITY OF NEWPORT BEACH  
FINANCE COMMITTEE STAFF REPORT**

May 7, 2012

**TO:** HONORABLE CHAIR AND MEMBERS OF THE COMMITTEE

**FROM:** Finance Department  
Tracy McCraner, Finance Director  
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**SUBJECT: REFINANCING OF TWELVE ASSESSMENT DISTRICTS**

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**ABSTRACT:**

Due to favorable market conditions, the City has an opportunity to refinance twelve existing Assessment Districts into one Reassessment District. The refunding is expected to create financial savings for remaining assessed property owners as well as reduce ongoing City administration and property owner administrative fees. With the concurrence of the Finance Committee the Financing Team will solicit bids for bank placement on May 9, 2012, and propose the final refinancing analysis be presented for City Council consideration at the June 26, 2012, meeting.

**OVERVIEW:**

Fieldman, Rolapp & Associates, financial advisors to the City, have prepared a preliminary analysis of the refunding for City Assessment Districts No. 68, 69, 70, 74, 75, 78, 79, 82, 86, 92, 99-2, and 101. These twelve districts include 1,561 properties. Although we have recapped some of the savings highlights here, their Memorandum, dated April 30, 2012, provides information about the structure and technical details.

**INTEREST SAVINGS**

Refunding the current bonds is expected to create savings to property owners due to the favorable interest rate environment. The current outstanding principal for all twelve Districts is \$10.8 million. These bonds carry interest rates ranging up to 5.75%, and it is estimated the bonds can be refinanced at approximately 2.90%. At this rate, the average annual cash savings range from \$91 to \$704 per parcel. This amounts to a net present value (PV) savings of \$466,915 or PV savings of 4.32%.

#### ADMINISTRATIVE SAVINGS

By consolidating the total number of active assessment districts from fourteen down to three, property owners also benefit from reduced administrative costs associated with district administration, annual disclosure reports, arbitrage calculations, levy preparation, delinquency management, etc.

#### FINANCE COMMITTEE CONCURRENCE

With the Finance Committee's concurrence, the Financing Team will move forward with solicitation of bids for City Council consideration on June 26, 2012.

Prepared by:

/s/Dan Matusiewicz

Dan Matusiewicz  
Deputy Finance Director

Attachment: April 30, 2012 Memorandum from Fieldman, Rolapp & Associates

# MEMORANDUM

**To:** Tracy McCraner, Director of Finance  
Dan Matusiewicz, Deputy Finance Director  
City of Newport Beach

**From:** Thomas DeMars, Robert Porr, and Paul Pender  
Fieldman, Rolapp & Associates (Financial Advisor to the City)

**Re:** Potential Bond Refinancing Savings for Property Owners in City Assessment Districts No. 68, 69, 70, 74, 75, 78, 79, 82, 86, 92, 99-2, 101 (12 of 14 City Districts)

**Date:** April 30, 2012

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## **Summary**

The City has the opportunity to refinance most of the outstanding 1915 Act assessment bonds issued through the City's Assessment Districts. The City currently administers the bonds for 14 such Districts, of which 12 could be refinanced. This will result in annual savings to the Districts' property owners on their property tax bills. These 12 Districts include 1,561 properties with \$10.82 million of bonds outstanding. The estimated savings range from \$90-\$700 per parcel per year (averaging \$177), based on current market conditions. Additional savings to property owners will be realized from reduced administrative costs. City staff time required to administer the Districts will be reduced as a result of consolidating 12 Districts into a new Reassessment District as part of the refinancing process.

## **Refinancing Overview**

The refinancing has been analyzed and structured so that it meets the legal requirements under State law. Assessment District bonds may be refinanced if authorized by City Council, provided the following three tests are met: 1) there must be savings in each year for each property owner, 2) the assessment lien cannot be increased on any property and 3) the final maturity of the bonds cannot be extended. These tests will be ensured by the Reassessment Report, which will be submitted to Council for approval with the other refinancing legal documents.

The Reassessment Report will reallocate the existing lien among the properties participating in the refinancing. The properties will be "reassessed" and consolidated into one new District, which under State law is termed a "Reassessment District." The consolidation of 12 current Districts will reduce administrative costs and City staff time.

## **Savings Potential**

The 12 Districts include 1,561 properties with \$10.8 million of bonds outstanding, bearing interest rates ranging up to 5.75%; in the current market it is estimated the bonds can be refinanced at approximately 2.90%.

The refinancing will be structured to maximize savings to property owners on their upcoming assessment installments. The attached table shows the savings broken down by several different metrics (see attached). Taken as a whole, the average per parcel savings per year is \$177, which is an average 18% reduction on existing District assessments. Estimated total gross debt service savings over the life of the refinancing totals \$2.1 million, averaging \$276,000 per year. On an annual basis, the savings per parcel range from \$91-\$700. On a net present value basis, total savings are \$466,000

# MEMORANDUM

with total per parcel NPV savings ranging from \$31-\$2,174. Differences in savings level per parcel depend on three factors: the interest rates on the District's outstanding bonds, the number of years of bond repayment remaining, and the existing level of lien per parcel. There are large variations between the Districts. For instance, ADs 68 and 69 bonds currently bear interest at 3-4%, compared to 4.3-5.7% in ADs 92 and 99-2. Districts 74 and 78 have average liens per parcel under \$3,000, compared to \$11,000 - \$32,000 for Districts 92, 99-2, and 101. These factors result in higher savings per parcel potential for Districts with higher liens and interest rates. A longer remaining bond repayment in a given District, which ranges from 3-12 years, also increases the savings potential.

Assessment Districts No. 100 and 103 bonds were also analyzed, but did not achieve any savings. Given the wide range of savings per parcel for each District, there is no recommended minimum savings per parcel. Other than Districts 92, 99-2, and 101, which have the highest savings levels, the Districts have just 3-7 years of bond repayment remaining, making a more advantageous refinancing in the future unlikely. Districts 68 and 69 provide the lowest level of economic savings at \$31-34 per parcel or just 0.6% of the outstanding bonds. However, additional administrative cost savings to property owners in these Districts and City staff time savings are anticipated to be gained from consolidating 68 and 69 into the new Reassessment District.

## **Timing and Structure**

All Districts' bonds are callable on September 2. It is contemplated a proposed Reassessment District and refinancing would be considered for City Council consideration on June 26.

Both a traditional public offering of bonds and a competitive bank placement structure were analyzed for the refinancing. Based on the current market, the bank placement is anticipated to be the more advantageous option, with an overall interest rate of 2.90% versus 3.25% for the public offering. The public offering additionally would have issuance costs roughly \$50,000 higher, including legal costs for a bond offering document. The public offering would additionally not result in any savings for ADs 68 or 69, and would make several other Districts' savings levels marginal.

Banks will be solicited to provide bids to purchase the new refunding bonds. It is anticipated that the winning bidder will provide a commitment to "lock" their bid rate of interest bid for a period of 30-45 days. This is another advantage to the bank placement, in that market risk will be reduced for this period. It will further provide time to ensure each District meets the three tests required by State Law based upon the rate of interest bid. The savings levels are anticipated to be known at the time of Council consideration.

Request Bank Bids – May 9

Draft legal documents – May 11

Receive Bank Bids – May 28

City Council consideration – June 26

Close Refinancing – July 2 (funds held in escrow until 9/2 call date)

FY12-13 Assessments Determined – August 10 (based on refinancing)

## **Other Notes**

After the potential refinancing the City will only administer three outstanding Districts, a reduction from the current number of 14.

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All refinancing costs will be divided among the Districts being refinanced on a proportionate basis and are factored into the savings numbers contained herein. Total issuance costs for the competitive bank placement

**CITY OF NEWPORT BEACH**  
Assessment District Refunding Analysis

**Competitive Bank Placement Scenario**  
**Based on 2.90%\* Refunding Rate plus \$162,000 in issuance costs**

	City Assessment District No.	Number of Parcels	Bonds Outstanding ('000)	Years to Maturity	Gross Bond Debt Service Savings	Average Annual Cash Savings	Average Annual Cash Savings Per Parcel <sup>3</sup>	Current Annual Levy (approx)	Annual Cash Flow Savings (% of levy) <sup>1</sup>	Net Present Value Savings <sup>2</sup>	NPV Savings % of Bonds	NPV Savings Per Parcel
1	68	317	1,730	7	\$223,057	\$31,865	\$101	\$255,000	12%	\$9,701	0.6%	\$31
2	69	364	2,170	7	\$316,947	\$45,278	\$124	\$319,000	14%	\$12,274	0.6%	\$34
3	70	149	665	6	\$85,329	\$14,222	\$95	\$115,000	12%	\$31,541	4.7%	\$212
4	74	39	85	4	\$18,949	\$4,737	\$121	\$19,000	25%	\$3,006	3.5%	\$77
5	75	73	470	7	\$67,721	\$9,674	\$133	\$73,000	13%	\$27,035	5.8%	\$370
6	78	142	195	3	\$99,321	\$33,107	\$233	\$55,500	60%	\$5,403	2.8%	\$38
7	79	73	390	4	\$87,550	\$21,888	\$300	\$91,000	24%	\$16,185	4.2%	\$222
8	82	23	75	4	\$29,847	\$7,462	\$324	\$16,000	47%	\$2,310	3.1%	\$100
9	86	57	120	6	\$31,229	\$5,205	\$91	\$21,000	25%	\$7,517	6.3%	\$132
10	92	38	1,230	11	\$294,428	\$26,766	\$704	\$140,500	19%	\$82,599	6.7%	\$2,174
11	99-2	107	1,675	12	\$453,152	\$37,763	\$353	\$182,700	21%	\$141,265	8.4%	\$1,320
12	101	179	2,015	11	\$424,479	\$38,589	\$216	\$229,450	17%	\$128,079	6.4%	\$716
	<b>TOTALS</b>	<b>1,561</b>	<b>\$10,820</b>		<b>\$2,132,009</b>	<b>\$276,556</b>	<b>\$177</b>	<b>\$1,517,150</b>	<b>18%</b>	<b>\$466,915</b>	<b>4.32%</b>	<b>\$299</b>

**Notes:**

1. Each parcel will see a reduction in their annual assessment, starting for the FY12-13 tax levy.
2. Accounts for use of funds on hand, including reserve funds, assessment installments on hand, project fund surplus, etc.
3. Assumes refunding includes a bond reserve fund of 7% of principal amount. Actual amount expected at 5%.

**Districts which are not currently feasible to refinance: ADs No. 100, 103**

**\*based on sample bank quotes obtained on 4/6/2012. (2.50% and 3.30%, for 2018 and 2024 final maturities, respectively).**