



Agenda Report

Fullerton City Council

MEETING DATE: NOVEMBER 2, 2021

TO: CITY COUNCIL

FROM: STEVE DANLEY, ACTING CITY MANAGER

PREPARED BY: ELLIS CHANG, DIRECTOR OF ADMINISTRATIVE SERVICES

SUBJECT: CFD NO. 1 (AMERIGE HEIGHTS) – ISSUANCE AND SALE OF SPECIAL TAX REFUNDING BONDS AND RELATED DOCUMENTS AND ACTIONS

SUMMARY

Consideration of issuance and sale of Special Tax Refunding Bonds (the “2021 Bonds”) to refinance outstanding 2012 Bonds for Community Facilities District No. 1 (Amerige Heights) (the “CFD”).

RECOMMENDATION

Adopt Resolution No. 2021-XX.

RESOLUTION NO. 2021-XX – A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF FULLERTON, CALIFORNIA, AUTHORIZING THE ISSUANCE AND SALE OF SPECIAL TAX REFUNDING BONDS AND APPROVING RELATED DOCUMENTS AND ACTIONS

BUDGET POLICY PRIORITY STATEMENT

This item matches the following Budget Policy Priority Statement:

- Fiscal and Organizational Stability.

FISCAL IMPACT

The issuance and sale of the 2021 Bonds to refinance the outstanding 2012 Bonds does not create a direct obligation of the City. This action pledges neither the faith and credit nor the taxing power of the City, the State of California or any political subdivision thereof other than the CFD to the payment of the Series 2021 Bonds. Special Taxes levied on the properties within the CFD solely pay the 2021 Bonds. The refinancing of the 2012

Bonds will provide an estimated \$388 annual savings to homeowners on average, in each tax year beginning with the tax installment due December 10, 2022, through a reduction to the annual Special Tax levy within the CFD. The estimated savings are net of all issuance costs.

DISCUSSION

The City completed proceedings to form the City of Fullerton Community Facilities District No. 1 (Amerige Heights) in 2002. The City, on behalf of the CFD, issued \$21,375,000 Community Facilities District No. 1 (Amerige Heights) Special Tax Bonds, Series 2002 (the “2002 Bonds”) in July 2002. In order to achieve interest rate savings, the City issued \$19,040,000 Community Facility District No. 1 (Amerige Heights) 2012 Special Tax Refunding Bonds (the “2012 Bonds”) in October 2012 for the purpose of refunding the 2002 Bonds. The 2012 Bonds bear interest at rates of 3.20% to 5.00% and have a final maturity of September 1, 2032. The 2012 Bonds are currently outstanding in the amount of \$13,470,000 and can be redeemed without premium on any date beginning on September 1, 2022.

City Council directed staff on August 17, 2021, to utilize savings from the refunding of the 2012 Bonds to reduce CFD No. 1 special taxes for property owners in the district. At the time, staff estimated that the refunding would result in savings of approximately \$300 per year for an average homeowner.

Current interest rates are near historic lows. The City can achieve further debt service savings by refunding the 2012 Bonds and pass these savings on to homeowners within the CFD No. 1 (Amerige Heights) neighborhood through a reduction in the CFD’s annual special tax levy.

The Tax Cuts and Jobs Act of 2017 eliminated the tax exemption for interest on advance refunding bonds (refunding bonds issued more than 90 days before the optional redemption date). The City will issue 2021 Bonds initially on a federally taxable basis, intended for conversion to a federally tax-exempt rate which can occur between June 3, 2022 and September 1, 2022 (the period 90 days before the September 1, 2022 redemption date of the 2012 Bonds).

The City worked with the City’s Municipal Advisor, Urban Futures, Inc. (UFI) and sent requests for Fee Proposals to four Underwriter / Placement Agent firms. The requests asked firms to present pricing and analysis for a public sale and private placement. All four Underwriter / Placement Agent firms responded. The City selected Stifel as Underwriter / Placement Agent, based on qualifications and competitive fees.

Stifel, as placement agent, solicited interest rates from 22 placement banks in September 2021, for the purpose of refinancing the 2012 Bonds. After receiving seven interest rate proposals with taxable rates ranging from 1.77% to 3.14%, the financing team evaluated the bids against indicative public offering rates to determine the proposal with the lowest rate and most advantageous terms. Staff chose to move forward with a private placement transaction with Sterling National Bank (“Sterling” or the “Bank”), which proposed the lowest interest rate and most advantageous terms.

A private placement has numerous advantages over a public sale, including lower costs of issuance, the ability to lock interest rates and reduced exposure to interest rate risk.

The 2021 Bonds are structured to take advantage of current market conditions with an initial taxable interest rate of 1.77%, intended to convert to a tax-exempt rate of 1.325% within 90 days before September 1, 2022 when the City can legally refund the 2012 Bonds on a tax-exempt basis. This structure enables the City to take advantage of current historically low interest rates and maximize savings for property owners in the CFD.

The interest rates in the Bank's term sheet are locked through the anticipated closing date of November 16, 2021. Staff expects the Bank to receive final credit approval in October 2021. Additionally, the Bank and the City have agreed to the substantive business terms and covenants reflected in the attached documents. The Bank and the financing team are ready to proceed to close the transaction with City Council adoption of the attached resolution.

Staff estimates the refunding of the 2012 Bonds will generate approximately \$4.4 million in cash flow savings over the life of the 2021 Bonds or, on average, approximately \$438,000 annually beginning in 2023. This results in net present value savings of approximately \$2.3 million or 17.4% of refunded principal amount of the 2012 Bonds. (The Government Finance Officers' Association recommends refunding bonds to achieve net present value savings of at least 3.0%.) Net present value savings represent the present value of savings in "today's dollars." Staff expects savings from the refinancing to lower the annual special taxes for CFD No. 1 residents by approximately \$388, on average, in each tax year beginning with the tax installment due December 10, 2022, through a reduction to the annual Special Tax levy within the CFD. This exceeds the prior estimate of \$300 annual savings provided to City Council in August 2021.

<i>Estimated Savings for 2021 Refunding Bonds*</i>	
Existing 2012 Bonds	
Outstanding Amount	\$13,470,000
Current Interest Rates	3.20% - 5.00%
2021 Refunding Bonds	
Bonds Amount	\$12,575,000
Tax-Exempt interest rate	1.325%
True Interest Cost	1.37%
Net Present Value Savings (\$)	\$2,339,153
Net Present Value Savings (%)	17.4%
Avg. Annual Savings (2023 – 2032)	\$438,138
Avg. Savings Per Residential Parcel Through 2032 ¹	\$388

*Preliminary; subject to change. Savings summary reflects conversion to a tax-exempt interest rate in June 2022.

1. Based on 1,129 taxable residential parcels. 9 non-residential parcels will continue being levied at existing special tax rates.

Staff estimates the proposed 2021 Bonds to have an initial principal amount of approximately \$12,575,000 with a final maturity in 2032, which is the same as the final maturity for the 2012 Bonds. The City will use a portion of the proceeds of the 2021 Bonds to fund a debt service reserve fund, funded at 10% of the maximum annual debt

service on the 2021 Bonds. Exhibit A of the attached Resolution provides good faith estimates related to the 2021 Bond provided by the Municipal Advisor, as required under California Government Code Section 5852.1 (Code),

Resolution

The Resolution appoints and retains the financing team Urban Futures, Inc. as Municipal Advisor; Jones Hall as Bond Counsel; Stifel Nicolaus as Placement Agent; DTA as Special Tax Consultant and U.S. Bank National Association as Fiscal Agent and approves all documents and actions needed to authorize the issuance and sale of the 2021 Bonds, including the following substantially final form financing documents, together with any changes or additions deemed advisable and approved by the Mayor, City Manager or Director of Administrative Services:

The 2021 Bonds financing documents are:

- Fiscal Agent Agreement between the City and U.S. Bank, as fiscal agent. This agreement contains the terms of the 2021 Bonds, including payment and redemption provisions, pledge of Special Taxes as security for the 2021 Bonds, rights and duties of the Fiscal Agent and final discharge of the 2021 Bonds.
- Escrow Agreement between the City and U.S. Bank, as prior bonds fiscal agent for the 2012 Bonds. The agreement contains the terms by which U.S. Bank will hold and invest the net proceeds of the 2021 Bonds until September 1, 2022, when the City will use the escrowed funds to redeem and discharge the 2012 Bonds in full.
- Placement Agent Agreement between the City and Stifel Nicolaus, as placement agent, containing the description of services provided by Stifel Nicolaus and certain conditions to closing.
- Purchaser's Term Sheet between the City and Sterling summarizes the terms of the 2021 Bonds, including interest rate, repayment terms, prepayment options, rate lock and covenants including annual reporting requirements.

If City Council adopts Resolution No. 2021-XX and financing documents, staff expects the 2021 Bonds to close on November 16, 2021. The City will pass savings onto property owners in CFD No. 1 (Amerige Heights) beginning with the tax installment due December 10, 2022.

Attachments:

- Attachment 1 – Presentation
- Attachment 2 – Resolution No. 2021-XX
- Attachment 2 – Fiscal Agent Agreement
- Attachment 3 – Escrow Agreement
- Attachment 4 – Placement Agent Agreement
- Attachment 5 – Purchaser's Term Sheet