

City of Newport Beach  
Assessment District No. 103  
(Peninsula Point)

Property Owner Information Meeting  
June 30, 2009

**PROPERTY OWNER PAYMENT OPTIONS**

A. Introduction

The public hearing for this assessment district (the "Assessment District"), as indicated in the mailed notices of hearing, will be held on July 28. Assuming that there is not a majority protest and that the Council determines to proceed with the Assessment District and the undergrounding project, the present schedule calls for (a) Council action to levy the assessments on July 28 and (b) recording of the assessments in the Orange County Recorder's office that same week.

Following these recording steps, a Notice of Assessment will be mailed to each property owner (using the same mailing list as was used for the notices of hearing and assessment ballots). This mailed notice is scheduled to be mailed no later than July 31 and will advise property owners that:

1. the assessments on their respective parcels have been recorded as a lien;
2. the assessment may be prepaid, either partially or in whole, in cash, at a discount and without any accrued interest; and
3. any such cash payment must be received by the City not later than Monday, August 31.

The need for establishing the deadline for cash payments is that the principal amount of the bonds which are to be issued and sold to complete the project financing will be equal to the principal amount of the UNPAID assessments. Since our present schedule calls for September 8 Council action to authorize issuance of the bonds, we have established the cash payment deadline for Monday of the week prior to that (namely, Monday, August 31) in order to determine the amount of unpaid assessments and finalize the documents for September 8 Council action.

The purpose of this memorandum is to provide a summary of the three payment options available to property owners in the event that the Assessment District is established.

B. Discounted Cash Pay-Down or Pay-Off Before Bond Issuance

Any property owner electing to partially or fully pre-pay an assessment during the cash payment period will receive a cash payment discount. The percentage of the cash payment discount will be equal to the sum of (a) the underwriter's discount, (b) the funded interest and (c) the bond reserve fund allowance. In the engineer's report preliminarily approved by the Council on June 9, these three items total thirteen percent (13% being the total of 1.25% for underwriter's discount, 5.75% for funded interest and 6.00% for bond reserve fund). While **these percentages remain subject to modification** in the final engineer's report, presently scheduled for approval on July 28, there is no present expectation that any of the three will be modified. The cash payment discount will be applied to both cash pay-downs and cash pay-offs.

For example, for a hypothetical assessment amount of \$16,000, the amount to fully pre-pay that assessment not later than Monday, August 31, would be \$13,920 (equal to 87% of \$16,000).

C. Installment Payments Collected on the Property Tax Bill

For those assessments not fully pre-paid during the prescribed cash payment period, they become payable in accordance with an installment payment plan, with annual installments collected as a separately stated line item on the County property tax bill. The annual installments will be structured to be approximately equal from year to year, over the 15 year term of the bond issue, with relatively minor variations from year to year.

The annual installments will consist of principal, interest, and administration fee. The annual principal and interest are calculated to match up to the principal and interest payments for the coming year on the bonds which the City will issue in an amount equal to the unpaid assessments. The interest rates and the repayment schedule for principal on the bonds will be established at the time of the bond sale by the City to the bond underwriting firm selected to serve as the City's bond underwriter (the "Underwriter"). For preliminary information purposes and strictly as an estimate based upon current bond market conditions, the City's Financial Advisor has estimated that, based upon current bond market conditions, the average interest rate if the bonds were sold at current market rates, would be approximately 5.75%. Neither the City nor the City's Financial Advisor can predict what will happen to interest rates in the period leading up to the bond sale, presently scheduled for mid-September.

As a rough approximation, using the 5.75% estimated average interest rate with bonds being repaid over 15 years, the annual installments for principal and interest will be equal to approximately 10.13% of the principal amount of the assessment, to which the City will add an administrative cost amount (a maximum of \$50 for the first year, with that maximum being subject to increase each year thereafter based on a CPI). For example, that same hypothetical assessment of \$16,000 would produce an annual installment of roughly \$1,620 for principal and interest. Assuming that the administrative cost amount for the first year is the maximum of \$50 per parcel, the total annual installment for the first year would be approximately \$1,670.

Please note that the \$1,670 is subject to adjustment either up or down, depending upon the bond date. For example, if the bonds are dated after September 2 (as would be the case with this Assessment District if it is established in accordance with the present schedule), the amount of interest included in the first year's installment could be less than a full year, and as a result the 2009-2010 installment could go down.

The annual installments are paid at the same time and in the same manner as property taxes. If delinquent, the delinquent installments bear the same 10% late charges and the same 1.5% monthly penalties (after July 1) as for property taxes.

D. Pay-Off or Pay-Down at Any Time

At any time over the 15-year installment payment period, a property owner may pay off or pay down (in minimum principal increments of \$5,000) the remaining unpaid assessment. The pay-off calculation is prescribed by law, and in general is equal to unpaid principal, plus the applicable prepayment premium, if any, plus interest to the next March 2 or September 2 bond payment date which is more than 90 days after receipt of the pay-off payment by the City, plus relatively modest administrative costs incurred by the City, less a credit for that parcel's share of the reserve fund.

E. Some Miscellaneous Notes

First, property owners should be aware that the lien securing unpaid assessments is subject to judicial foreclosure in the event that the property owner is delinquent in the payment of the assessment installment by the respective December 10 and April 10 deadlines for making property tax bill payments to the County Tax Collector. Unlike property taxes, there is no 5-year grace period. However, the City advises that it has never had occasion to proceed with foreclosure in any of its prior assessment districts, and current policy is that it would do so only if the cumulative amount of delinquencies rose to 30% of the initial reserve fund amount so as to create concern about depletion of the bond reserve fund, thereby risking default in timely payments to bondholders.

Second, the bond reserve fund moneys constitute a form of security deposit for property owners, and when installments are being calculated for the 15<sup>th</sup> and last year of the installment payment program, the moneys in the bond reserve fund are applied as a credit to the installment being billed to each parcel. As mentioned above in paragraphs B and D, any property owner who prepays all or any portion of an assessment, whether prior to or after bond issuance, will receive a discount for the portion of the bond reserve fund allocable to the subject assessment.

Third, with respect to the funded interest built into the assessments, that portion of the assessments will be included as part of the cash payment discount for any property owner who prepays prior to bond issuance. For those property owners who do not prepay in full prior to bond issuance, and assuming that the City is unable to have annual installments placed on the 2009-2010 County property tax bills, the funded interest is then used to pay bond interest coming due during 2010, and the property owners will not be billed an annual installment until the 2010-2011 property tax bill.

On the other hand, in the event that the City is able to have annual installments placed on the 2009-2010 County property tax bills, the assessments will be reduced to delete the funded interest prior to finalizing the amount of unpaid assessments. In that event, bond interest coming due during 2010 (together with any principal amount, if any, coming due on September 2, 2010) would be paid from the proceeds of those 2009-2010 installments collected on the property tax bills.

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