A G E N D A
JOINT MEETING: GLENDALE CITY COUNCIL AND GLENDALE FINANCING AUTHORITY
COUNCIL CHAMBER, City Hall – 613 E. Broadway, 2nd Floor
Glendale, CA 91206

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MARCH 26, 2019

ROLL CALL - 3:00 p.m.
- Report of the City Clerk of the City Council and Financing Authority, re: Posting of Agenda. The Agenda for the March 26, 2019 joint public meeting of the City Council and Financing Authority was posted on Friday, March 22, 2019 on the bulletin board Outside City Hall.

A **JOINT PUBLIC MEETING** of the City Council and Financing Authority is hereby called to meet at 3:00 p.m. on Tuesday, March, 26, 2019, in the City Council Chamber, City Hall, 613 E. Broadway, 2nd Floor, Glendale, CA 91206 to consider the following item(s) of business, to wit;

1. **Director of Finance, re: Refinancing Options for the City of Glendale's Variable Rate Demand Certificates of Participation for the 2000 Police Building Project**
   a. City Council Motion Directing Staff to Prepare Refinancing Documents for Consideration at a Subsequent Meeting as Directed by the City Council
   b. Glendale Financing Authority Motion Directing Staff to Prepare Refinancing Documents for Consideration at a Subsequent Meeting as Directed by the Glendale Financing Authority

ADJOURNMENT - For the City Council
- For the Financing Authority

Ardashes Kassakhian, City Clerk

ACKNOWLEDGMENT OF SERVICE

Members of the public may address the City Council, Housing Authority and Financing Authority regarding any item in this notice. Service of the above Call for a Joint Public Meeting of the City Council and Financing Authority, at the time and place above designated, is hereby acknowledged, and the Notice required by Government Code Section 54956 is hereby waived:
Hour:____a.m./p.m., this______day of___________________________, 20__.
By__________________________Title: City Council Member/Financing Authority Member

glendale california

CITY OF GLENDALE, CALIFORNIA
REPORT TO THE:

Joint ☒ City Council ☒ Housing Authority ☐ Successor Agency ☐ Oversight Board ☐

Glendale Financing Authority ☒

March 26, 2019

AGENDA ITEM

Report: Refinancing options for the City of Glendale's variable rate demand Certificates of Participation for the 2000 Police Building Project

1) City Council Motion directing staff to prepare refinancing documents for consideration at a subsequent meeting as directed by the City Council

2) Glendale Financing Authority Motion directing staff to prepare refinancing documents for consideration at a subsequent meeting as directed by the Glendale Financing Authority

COUNCIL ACTION

Public Hearing [ ] Ordinance [ ] Consent Calendar [ ] Action Item [X] Report Only [ ]
Approved for March 26, 2019 calendar

ADMINISTRATIVE ACTION

Signature

Submitted by:
Robert P. Elliot, Director of Finance .... Robert Elliot

Prepared by:
Shu-Jun Li, Deputy Director of Finance .... Sh Li

Alwin DeLeon, Accounting Supervisor .... Alwin DeLeon

Approved by:
Yasmin K. Beers, City Manager .... [signature]

Reviewed by:
Michele Flynn, Assistant Director of Finance .... Michele Flynn

Roubik Golanian, Assistant City Manager .... [signature]

Mike Garcia, City Attorney .... Michael J. Garcia

RECOMMENDATION

It is respectfully recommended that the City Council and the Glendale Financing Authority approve a fixed rate refinancing of the City's existing Certificates of Participation (COPs) for the 2000 Police Building Project and direct staff to prepare fixed rate refinancing documents for consideration at a subsequent meeting.

BACKGROUND/ANALYSIS

Prior to year 2000, the City acquired land upon which the City planned to construct the current police building. The City and the former Glendale Redevelopment Agency had previously formed the Glendale Financing Authority (Authority) to assist the financing of the Police Building Project.

When the City Council and the Authority approved the acquisition and construction of the current police building, a 30-year variable rate demand Certificates of Participation (COPs) for $64.2 million was approved to fund the Police Building Project because it represented the most cost effective utilization of the City's financial resources at that time. Additionally, at the time, debt market conditions allowed borrowing by the City at rates lower than the City's historical return on investments in the portfolio. By using variable rate demand COPs, the financing provided funding for the Police Building Project while conserving cash for other capital needs. The construction plan for the Police Building Project consisted of a police operations building including jail facilities that would be approximately 157,500 sq. ft along with a 350 space parking facility.

In order to provide liquidity support for the variable rate demand COPs, the City and the Authority entered into a Standby Purchase Agreement dated July 1, 2000 with Morgan Guaranty Trust Company of New York, which later became JP Morgan Chase Bank. A Standby Purchase Agreement is an agreement with a third party, typically a bank, who will provide liquidity to purchase securities that have been tendered to the issuer or its agent, but which cannot be immediately remarketed to new investors.

The Standby Purchase Agreement initially was set to expire on July 20, 2003. After that, the Agreement was extended annually with 0.200% or 0.250% per annum Commitment Fee until fiscal year 2009. During the economic down-turn, and with the change in Federal Regulations requiring the banks to put up more capital, the Bank increased the Commitment Fee to 1.300%, a 1.050% increase from prior year. Due to the instability in the banking system at the time, the City had no real options for alternative providers, and entered into a 1-year agreement with the Bank at this much higher rate. That agreement expired on July 15, 2010.

First Restructuring

During the 2010 fiscal year, staff started to explore alternatives to see if there were less expensive ways to facilitate this debt. Finance staff sent out a Request for Information (RFI) in March 2010 to seven liquidity facility providers. Only two banks responded; JP Morgan Chase Bank and the Union Bank submitted liquidity facility support proposals. The JP Morgan proposal was 0.760% and the Union Bank's proposal was 0.800% per annum. The City utilized Harrell & Company Advisors (HCA) to evaluate the proposals. HCA recommended the JP Morgan Chase Bank's proposal as it was the lowest bidder among the two providers. The City and the Authority subsequently extended the agreement with the commitment fee rate at 0.760% per annum with JP Morgan Chase Bank.

During the term of this agreement, when *Moody's Investor Service* downgraded the COPs' ratings on January 10, 2013, the Commitment Fee rate with JP Morgan automatically increased to 0.960% per the terms of the agreement.

Second Restructuring

Since the JP Morgan Standby Purchase Agreement was due to expire on July 15, 2013, in January of that year, staff began the process of exploring various financing alternatives to reduce costs and provide savings to the City. Staff had sent out a Request for Information (RFI) to seven likely providers. The list of providers included JP Morgan, the City's current Letter of Credit provider; Bank of America N.A.; Wells Fargo Securities; Mitsubishi UFJ Securities (USA), Inc.; Bank of New York Mellon; Bank of the West; and Holman Capital Corp. Various proposals were received back with the following financing options: 1) Variable Rate Demand COPs backed by Letter of Credit; 2) Direct Purchase Index Floaters (Direct Purchase); 3) Lease Purchase Financing; and 4) A Public Offering Fixed Rate Option. The City again utilized HCA to assist staff in evaluating all of the proposals.

In May 2013, the City Council and the Glendale Financing Authority authorized a direct purchase agreement with Bank of America for variable rate demand COPs. Bank of America purchased the bonds directly from the City, and the variable interest rates were set at 70% of 1-month LIBOR plus a fixed credit spread of 0.4% for a 3-year term. The Direct Purchase structure served as a substitute for traditional variable rate demand obligations or other variable rate structures for issuers who desire to enter into or maintain floating rate liabilities. With this option, the City maintained existing bonds and converted to a new interest rate mode. The Direct Purchase option eliminated fees such as: commitment fees, remarketing fees, surveillance fees, disclosure fees as well as trustee fees and would provide more savings to the City. Moreover, the total issuance cost was significantly lower than a Public Market fixed rate option.

Current Debt Structure

In May 2016, the City Council and the Authority authorized a second 3-year direct purchase agreement with Bank of America for variable rate demand COPs. The variable interest rates are set at 70% of 1-month LIBOR plus a fixed credit spread of 0.48% for a 3-year term. Before the direct purchase agreement expired, staff explored various financing alternatives to reduce costs and provide savings to the City. Among the various financing options, the Direct Purchase option was still recommended as the best financing alternative that would provide more savings to the City.

2019 Alternatives Explored

Since the current agreement with Bank of America will expire in July 2019, in December 2018, staff began the process of exploring various financing alternatives to reduce costs and provide savings to the City.

Due to tax reform approved by Congress late in 2017, the federal income tax rates for corporations such as Bank of America Merrill Lynch (BAML) was reduced from a maximum of 35% to a maximum of 21%. This change in the tax code affected many issuers of privately placed bonds like the COPs, since the tax-exemption on these bonds are now worth less to the financial institution holding the bonds as an investment. Because of this change, the interest rate on the COPs has increased by 20% from what it would have been prior to the tax reform. In addition, LIBOR rate increases tend to follow the changes in the Federal Discount Rate, which has been increased by the Federal Reserve significantly in the last 2 ½ years. The1-Month LIBOR rate has increased over 2% during this time.

Due to the combined effect on the variable interest rate of the increases in the LIBOR rate, the impact of tax reform on the interest rate on bonds owned by institutions such as BAML, and the risk of additional rate increases, the City engaged HCA to prepare an analysis of the cost of refinancing the COPs at a fixed rate, and compare to the cost to renew the variable rate agreement with BAML. This analysis takes into account the costs that the City incurs every time the BAML agreement is renewed (legal costs and financial advisor costs) as well as the one-time costs to issue fixed rate bonds.

Since the issuance of the $64.2 million COPs in 2000, the annual payments of the principal, interests, commitment fees and other related fees have been appropriated and paid out of the Police Building Project Debt Service Fund. The current principal balance of the COPs is $31.88 million. After the June 1, 2019 debt service payment of $1.985 million, the principal balance of the debt will be $29.895 million. The Police Building Project Debt Service Fund will have an estimated cash balance as of June 30, 2019 of $15.177 million.

The analysis prepared by HCA includes five options, shown in the table below. Each option includes the earnings expected on the balance in the Police Building Project Debt Service Fund over time, and in the case of a full prepayment, the loss of investment earnings on the General Fund reserves used prior to the time when the General Fund Transfer to the Police Building Project Debt Service Fund happens annually in the remaining maturity of the COPs.

The average fixed rates for refunding bonds are currently less than the variable rates. This is primarily due to the relatively flat yield curve on municipal bonds at the moment, and the fact that the investors in municipal tax-exempt bonds generally are unaffected by the tax reform reduction in tax rate (and so do not need a higher rate to offset the tax rate reduction like a financial institutional investor), but due to the loss of deductions for state and local taxes for individuals, the value of municipal tax-exempt bonds has increased for traditional individual investors.

Summary of Refinancing Options

		Full Payoff	Fixed Rate		Variable Rate	
			Full Refi	Pay off $15M	Full Refi	Pay off $15M
Total Debt Service/Costs	$	29,895,000	33,856,897	17,003,141	36,612,498	18,270,249
Debt Service Fund (Earnings)/Loss		2,463,585*	(2,588,301)	(199,633)	(2,576,690)	(168,411)
Debt Service Cash Balance		(15,177,457)	(15,177,457)	(177,457)	(15,177,457)	(177,457)
Net General Fund Cost	**$**	**17,181,128**	**16,091,139**	**16,626,051**	**18,858,351**	**17,924,381**
Average Annual General Fund Payment	**$**	**N/A**	**1,462,831**	**1,511,459**	**1,714,396**	**1,629,489**
Assumed Interest Rate on Debt		N/A	2.01%	2.01%	3.39%	3.39%
Projected Avg Interest on City Portfolio		2.50%	2.50%	N/A	2.50%	N/A

* Earnings Lost on General Fund Reserve of $14,717,543.

Recommendation

Based on the above summary, staff recommends that the COPs be refinanced in full with fixed rate bonds. The amount of fixed rate refunding bonds that would be issued includes the amount to prepay the COPs and to pay the costs of issuing the refunding bonds. The total cost of issuance is estimated to be $216,000, which includes fees for bond counsel, disclosure counsel, financial advisor, Standard & Poor's rating agency, trustee fees, and the underwriting cost of the competitive bidding platform (per the City's Charter requirement), printing and title insurance. The underwriting fees are expected to be $150,000. Even with additional up-front costs paid from the bond proceeds for a fixed rate refunding, the annual debt service payments payable by the General Fund are estimated to be approximately $2 million less than the payments under the existing variable rate structure. Additionally, a fixed rate refunding will eliminate future interest rate risk if variable rates exceed the conservatively projected variable rates in the analysis prepared by HCA.

The fixed rate options shown on the previous page are based on a bond issuance in early June 2019, using interest rates under current tax-exempt municipal market conditions. If interest rates were to increase by 0.25% between now and the time the bonds could be issued, the debt service on the full fixed rate refunding would increase by approximately $478,000. Net of the change in earning on the debt service fund, the total additional cost would be $526,000, or $16.6 million instead of $16.1 million shown in the table on the previous page. The average annual debt service would be an estimated $1.51 million instead of the $1.46 million shown in the table on the previous page.

Staff also analyzed the idea of replacing the net outstanding COPs balance of $14.7 million ($29.9 million principal balance less $15.2 million cash balance) with an internal loan from the City Treasurer's cash pool. As of December 2018, the City's average investment portfolio rate of return (which is restricted to investments five years or less) is 2.25%. Given the fact that the City can borrow the gross outstanding COPs balance of $29.9 million at about 2% from the external parties for 11 years, and earn interest at 2.25% or higher for the $15.2 million cash on hand, the internal loan does not make financial sense.

Staff also checked with the City's external auditor for the general rule of internal loans. The acceptable length of an internal loan is three years, which is recommended by the State Controller's office. Additionally, if the external debt is eliminated in favor of an internal loan, and if for any reason, there is a need to refinance the internal loan to a new external borrowing, the new external borrowing would now be considered a taxable debt issuance by the IRS. This would translate into much higher costs to the City to borrow since the rates would be considerably more than the current tax exempt debt. Additionally, taxable debt may not be as attractive for investors. In short, for the many reasons listed above, this is not a viable option.

If City Council and Glendale Financing Authority concur, staff asks for a motion to direct the preparation of documents necessary for the issuance of fixed rate refunding bonds for consideration at a subsequent meeting.

FISCAL IMPACT

Since the issuance of the $64.2 million COPs in 2000, the annual payments of the principal, interests, commitment fees and other related fees have been appropriated and paid out of the Police Building Project Debt Service Fund. The future appropriation for the debt service payments will be funded out of the Police Building Project Debt Service Fund, and will be incorporated in the annual budget process. The annual General Fund transfer to the Police Building Project Debt Service Fund will also be incorporated in the annual budget process as it has been for many years.

ALTERNATIVES

Alternative 1: The City Council and the Glendale Financing Authority accept staff recommendation to approve a fixed rate refinancing of the City's existing Certificates of Participation (COPs) for the 2000 Police Building Project and direct staff to prepare fixed rate refinancing documents for consideration at a subsequent meeting.

Alternative 2: The City Council and the Glendale Financing Authority may consider any other alternative not proposed by staff.

CAMPAIGN DISCLOSURE

N/A

EXHIBIT

Variable Rate Demand Certificates of Participation Refinancing Options prepare by Harrell & Company Advisors

MOTION

Moved by Council Member____,

Seconded by Council Member____,

that the City Manager or her designee is authorized to prepare refinancing documents for the variable rate demand Certificates of Participation for the 2000 Police Building Project.

Adopted this _________ day of _______________, 2019.

Vote as follows:

Ayes:

Noes:

Absent:

Abstain:

THE MOTION ADOPTED BY THE GLENDALE CITY COUNCIL AT ITS REGULAR MEETING HELD ON

___________________________.

APPROVED AS TO FORM

Michael J. Garcia

CITY ATTORNEY

DATE 3/21/19

1 A 1

MOTION

Moved by Financing Authority Member_______________________________________,
Seconded by Financing Authority Member_____________________________________,
that the City Manager or her designee is authorized to prepare refinancing documents for the variable rate demand Certificates of Participation for the 2000 Police Building Project.

Adopted this ________ day of ______________, 2019.

Vote as follows:

Ayes:

Noes:

Absent:

Abstain:

THE MOTION ADOPTED BY THE GLENDALE FINANCING AUTHORITY AT ITS REGULAR MEETING HELD ON

________________________.

APPROVED AS TO FORM

Michael J. Garcia

CITY ATTORNEY

DATE 3-21-19

1 B 1

Exhibit

HARRELL & COMPANY
ADVISORS, LLC

March 11, 2019

Robert Elliot
Finance Director
City of Glendale
141 N. Glendale Ave., Room 346
Glendale, CA 91206-4998

Re: City of Glendale 2000 Certificates of Participation

Dear Bob:

The City has requested an analysis and comparison of the costs to (1) prepay the entire balance of the City's outstanding 2000 Certificates of Participation (COPs), (2) refinance the outstanding COPs balance with fixed rate bonds, or (3) renew the current COPs variable rate direct purchase agreement with Bank of America Merrill Lynch (BAML) for a new 3 year term. In addition, you would also like to see the effect of using $15 million in the debt service fund to prepay a portion of the outstanding balance prior to either a renewal or conversion to fixed rates.

The COPs outstanding balance will be $29,895,000 on June 1, 2019 and the COPs mature June 1, 2030.

<u>Variable Rate Renewal Option:</u>

The COPs are variable rate bonds. The City initially obtained a Standby Purchase Agreement to secure funding for repurchase of the COPs while they were in the "demand" mode. This was required because at that time, investors could demand that the City repurchase their COPs upon seven days' notice if they no longer wanted to hold the COPs as an investment. When the City decided in 2013 that it was not cost effective to renew the Standby Purchase Agreement, the City entered into an agreement with BAML to purchase the COPs for their own investment portfolio with no need for a liquidity facility. BAML would hold the COPs as an investment for 3 years, and after the third year, the City and BAML would enter into an extension for subsequent 3 year periods, renegotiating the terms and conditions. The interest rate is still variable, and is based on a formula that uses the 1-month LIBOR rate in the calculation, which is a relatively short term interest rate.

The City renewed the agreement with BAML in 2016 to hold the COPs as an investment for another 3 years. The renewal period is approaching in July 2019.

The City enjoyed a period of extremely low interest rates going into 2016. However, just like the increases in the short term Discount Rate set by the Federal Reserve, 1-month LIBOR rates have increased over 2.0% in the last 30 months. This has translated into higher interest rates on the variable rate COPs. Further, due to tax reform approved by Congress late in 2017, the federal income tax rate for corporations such as BAML was reduced from a maximum of 35% to a maximum of 21%. This change in the tax code affected many issuers of privately placed bonds like the COPs, since the tax-exemption on the bonds was now worth less to the financial institution holding the bonds as an investment. Because of this change, the interest rate on the COPs has increased another 20% from what it would have been prior to the tax reform based on the formula contained in the agreement with BAML.

Below is a history of the 1-month LIBOR and the City's interest rate under the BAML formula.

Month		LIBOR Rate	Change	Federal Reserve FOMC Action	COPs Rate
July	2016	0.4829			0.78330
August	2016	0.5128	0.0299		0.82080
September	2016	0.5270	0.0142		0.84130
October	2016	0.5308	0.0038		0.84410
November	2016	0.5631	0.0323	Election	0.84790
December	2016	0.7164	0.1533	FOMC Rate Increase Dec 14 + .25%	0.90680
January	2017	0.7714	0.0550		1.01480
February	2017	0.7767	0.0053		1.02100
March	2017	0.9286	0.1519	FOMC Rate Increase March 15 + .25%	1.02420
April	2017	0.9909	0.0623		1.16300
May	2017	1.0122	0.0213		1.17150
June	2017	1.1714	0.1592	FOMC Rate Increase June 14 + .25%	1.21040
July	2017	1.2280	0.0566		1.33410
August	2017	1.2319	0.0039		1.33410
September	2017	1.2349	0.0030		1.33410
October	2017	1.2385	0.0036		1.33410
November	2017	1.2879	0.0494		1.33410
December	2017	1.4925	0.2046	FOMC Rate Increase Dec 13 + .25%	1.33410
January	2018	1.5612	0.0687		1.57250
February	2018	1.6018	0.0406		1.57750
March	2018	1.8029	0.2011	FOMC Rate Increase March 21 + .25%	1.63993
April	2018	1.8961	0.0932		1.79582
May	2018	1.9468	0.0507		1.80991
June	2018	2.0684	0.1216	FOMC Rate Increase June 13 + .25%	1.86272
July	2018	2.0790	0.0106		1.93949
August	2018	2.0741	(0.0049)		2.34820
September	2018	2.1755	0.1014	FOMC Rate Increase Sept 26 + .25%	2.37570
October	2018	2.2857	0.1102		2.49670
November	2018	2.3193	0.0336	FOMC No Rate Increase Nov 8	2.53360
December	2018	2.4582	0.1389	FOMC Rate Increase Dec 19 + .25%	2.57600
January	2019	2.5095	0.0513	FOMC No Increase Jan 30	2.72330
February	2019	2.5091	(0.0004)		2.71203
		2.026%		Increase over 30 months	1.9287%

In order to estimate what the future cost to maturity of the COPs is if the agreement with BAML is periodically renewed under the existing terms, future LIBOR rates have to be estimated. Then the current interest rate formula would be applied. The existing formula multiplies the 1-Month LIBOR rate by 70%, and then a spread is added based on the City's credit rating. That spread is currently 0.475%. Then the total of the sum of these two amounts is multiplied by a factor of 1.2154 (taking into account the change in BAML's tax rate from 35% to 21%) to determine the interest rate. As an example, the current COPs rate of 2.71203% is determined as follows:

1-Month LIBOR	2.50913%
X 70%	1.75638%
+ 0.475%	2.23138%
X 1.2154	2.71203%

To project out the LIBOR rate through the COPs maturity in 2030, we have based the projection on expected future actions by the Federal Reserve. While recently the news has been that rate increases will slow down, the long term projection is for rates to continue to increase. Since the COPs mature in 2030, the ultimate LIBOR rate is expected to be 3.50% by 2021, which would translate into a rate for the COPs of 3.555% under the formula. The table below shows the Federal Open Market Committee Meeting Dates, anticipated increase in the LIBOR by fiscal year and the resulting COPs rate. The LIBOR rate has been held constant at 3.50% from 2021 through maturity in 2030.

Month		LIBOR Rate	FOMC meeting dates	COPs Rate
March	2019	2.51	FOMC meeting March 20	2.7123
April	2019		FOMC meeting April 30	2.7123
May	2019			2.7123
June	2019		FOMC meeting June 19	2.7123
July	2019	2.60	FOMC meeting July 31	2.7893
August	2019			2.7893
September	2019		FOMC meeting	2.7893
October	2019			2.7893
November	2019		FOMC meeting	2.7893
December	2019		FOMC meeting	2.7893
January	2020		FOMC meeting	2.7893
February	2020			2.7893
March	2020		FOMC meeting	2.7893
April	2020		FOMC meeting	2.7893
May	2020			2.7893
June	2020		FOMC meeting	2.7893
July	2020	3.10	FOMC meeting	3.2147
July	2021+	3.50		3.5550

In addition to the interest cost, the periodic renewals of the agreement with BAML require amendments to the existing agreement, and legal fees associated with the renewals are expected to be $30,000 average each time. Under the current 3-year cycle, there will be 4 renewals before the COPs mature.

The effective average interest rate for the COPs left in a variable interest rate mode through 2030 is estimated at 3.39% based on the interest rate assumptions described above.

The City could apply funds on hand to prepayment of all or a part of the COPs. The chart on Exhibit A shows the costs to the City of prepaying the entire balance. The chart on Exhibit D shows the estimated cost to maturity of the COPs using the variable interest rate analysis, with no prepayment. The chart on Exhibit E shows the estimated cost to maturity of the COPs using the variable interest rate analysis, with a prepayment of $15 million upon the renewal. Each analysis includes interest earnings on the balance in the Debt Service Fund, and a drawdown over time of the $15 million in the Debt Service Fund to offset the General Fund cost of the COPs. The funds in the Debt Service Fund are not pledged to the COPs and can be used for any purpose.

Fixed Rate Refinancing Option:

To mitigate the interest rate risk in this period of rising interest rates, a refinancing of the outstanding balance of the COPs with fixed rate bonds is also an option. Sometimes this refinancing is referred to as a "refunding" and the bonds issued for this purpose are called "refunding bonds."

As with the Renewal Option, an estimate of fixed rates based on current market conditions has to be prepared. Fixed rates are based on a spread to the Municipal Market Data (MMD) index, and the spread is based on the credit rating of the issue. The MMD index tracks the daily change in municipal bonds interest rates for AAA-rated bonds across the country. The City's existing lease revenue bond credit rating from Standard & Poor's is AA.

The MMD index used in the analysis is as of February 20. Since that time, there has been little change in the MMD, so the analysis has not been updated. The chart on the following page shows the MMD index, the spread, the stated rate (or coupon) and the yield for each individual maturity of bonds for that portion of bonds that would mature in such year. It is based on rates for AA rated certificates of participation sold by San Benito County in mid-February.

Traditional investors in municipal tax-exempt bonds are individuals or individuals investing in tax-exempt bond funds. Individuals are generally unaffected by the tax reform reduction in the corporate tax rate (and so do not need a higher rate to offset the tax rate reduction like a financial institutional investor such as BAML), but due to the loss of deductions for state and local taxes for individuals, the value of municipal tax-exempt bonds has increased for traditional individual investors. Further, we are in a period of relatively low supply of municipal tax-exempt bonds. These two factors are helping to keep interest rates relatively low.

Right now, those factors combined with the current general interest rate environment where there is a relatively flat yield curve for fixed rate bonds, produces an estimated interest rate for the portion of the refunding bonds that would mature in 2020 of 1.44% and an estimated interest rate for the portion of the refunding bonds that would mature in 2030 of only 2.31%. This flat yield curve produces a weighted average interest rate of approximately 2.0% for 11-year fixed rate refunding bonds.

The chart on Exhibit B shows the estimated cost to maturity of the COPs using the fixed interest rate analysis, with no prepayment. The chart on Exhibit C shows the estimated cost to maturity of the COPs using the fixed interest rate analysis, with a prepayment of $15 million prior to issuance of the refunding bonds. Each analysis includes interest earnings on the funds that would otherwise be available to pay debt service in future years, and a drawdown over time of the $15 million to offset the General Fund cost of the COPs. The debt service for this analysis includes an issue size to pay for the one-time costs of issuing the bonds. The fixed costs of issuance include fees for bond counsel, disclosure counsel, financial advisor, S&P rating agency and trustee, and the cost of the competitive bidding platform, printing and title insurance. These are estimated at a total of $216,000. The underwriting fees are expected to be $150,000.

Sale Date	2/14/2019				Est for 6/1/2019 based on 2/20/19			
Issuer	San Benito County				City of Glendale			
Issue	COP				Lease Rev			
Type	Negotiated				Competitive			
Par	7,480,000				30,000,000			
Rating	AA				AA			
Maturity	October 1				June 1			
Call Feature	10/1/28 @ 100				6/1/2028 @ 100			
Underwriter	Fidelity				TBD			
Maturity	MMD 2/14	Coupon	Yield	Spread	MMD 2/20	Coupon	Yield	Spread
2020*	1.600	5.000	1.450	(0.150)	1.590	5.000	1.440	(0.150)
2021*	1.610	5.000	1.480	(0.130)	1.600	5.000	1.470	(0.130)
2022*	1.640	5.000	1.530	(0.110)	1.610	5.000	1.500	(0.110)
2023*	1.670	5.000	1.570	(0.100)	1.640	5.000	1.540	(0.100)
2024*	1.730	5.000	1.630	(0.100)	1.680	5.000	1.580	(0.100)
2025*	1.790	5.000	1.710	(0.080)	1.740	5.000	1.660	(0.080)
2026*	1.870	5.000	1.800	(0.070)	1.820	5.000	1.750	(0.070)
2027*	1.960	5.000	1.900	(0.060)	1.910	5.000	1.850	(0.060)
2028*	2.050	5.000	2.000	(0.050)	2.000	5.000	1.950	(0.050)
2029*	2.160	5.000	2.120	(0.040)	2.100	5.000	2.060	(0.040)
2030*	2.260	4.000	2.360	0.100	2.210	4.000	2.310	0.100
2031*	2.360	4.000	2.500	0.140	2.320			
2032*	2.430				2.400			
2033	2.480	3.000	3.030	0.550	2.470			
2034	2.530	3.000	3.080	0.550	2.520			

* interpolated for mid-year based on maturity date.

Comparison:

The comparison of the financial impact of each option is shown below. The full payoff would require an additional $14,895,000 from the General Fund reserves in addition to the $15,000,000 reserves in the Debt Service Fund.

Comparison of Options

	Full Payoff	Fixed Rate		Variable Rate	
		Full	Less $15M	Full	Less $15M
Total Debt Service/Costs	$29,895,000	$33,856,897	$17,003,141	$36,612,498	$18,270,249
Debt Service Fund Earnings	2,463,585*	(2,588,301)	(199,633)	(2,576,690)	(168,411)
Debt Service Fund Balance	(15,177,457)	(15,177,457)	(177,457)	(15,177,457)	(177,457)
Net General Fund Cost	$17,181,128	$16,091,139	$16,626,051	$18,858,351	$17,924,381
Average Annual General Fund Payment		$1,462,831	$1,511,459	$1,714,396	$1,629,489
Effective Interest Rate	N/A	2.01%	2.01%	3.39%	3.39%
Weighted Avg Interest Earnings Rate	2.52%	2.51%	N/A	2.55%	N/A

* Earnings Lost on General Fund Reserve of $14,717,543

The fixed rate options shown above are based on a bond issuance in early June, using interest rates under current tax-exempt municipal market conditions. If interest rates were to increase by 0.25% between now and the time the bonds could be issued, the debt service on the full fixed rate refunding would increase by approximately $478,000. Net of the change in earning on the debt service fund, the total additional cost would be $526,000, or $16.6 million instead of the $16.1 million shown in the table above. The average annual debt service would be an estimated $1,510,000 instead of the $1,462,000 shown in the table above.

Timing:

The City also requested an estimate of the timing to complete a fixed rate refunding or a renewal.

Fixed Rate Option – The approval of fixed rate refunding bond documents would need to be approved by mid-April. The credit rating process would be completed by early May and the official statement (offering document) would be circulated to potential bidders by May 10. A competitive sale would be held the week of May 20, and the refunding bonds would be issued in mid-June. The COPs would be redeemed on July 1 from proceeds of the refunding bonds.

Renewal Option - The renewal date is July 8, 2019. The negotiation of the terms of the renewal agreement would need to be complete by June 1, although the agreement could be finalized and executed by the end of June. If a bid among potential financial institution investors (in addition to BAML) was conducted, the bid parameters would need to be distributed by mid-April and bids received by mid-May. The selection of the investor would be made by the end of May so that documents could be finalized prior to the renewal date.

I am happy to answer any questions that you have concerning this information, the projection of interest rates or the estimated costs of each option.

Sincerely,

Suzanne Harrell

City of Glendale 2000 COP Refinancing Options
Exhibit A

Prepay Entire Balance

Year Ending	General Fund Drawdown	Interest Earnings	Lost Interest Income	DS Fund End Cash Balance
				(14,717,543) *
6/30/2020	1,700,000	2.46%	(320,232)	(13,337,775)
6/30/2021	1,700,000	2.66%	(309,565)	(11,947,339)
6/30/2022	1,700,000	2.86%	(293,074)	(10,540,413)
6/30/2023	1,700,000	3.06%	(270,517)	(9,110,930)
6/30/2024	1,700,000	3.26%	(241,596)	(7,652,526)
6/30/2025	1,065,000	3.46%	(227,928)	(6,815,455)
6/30/2026	1,065,000	3.66%	(210,467)	(5,960,921)
6/30/2027	1,065,000	3.86%	(188,983)	(5,084,904)
6/30/2028	1,065,000	4.06%	(163,208)	(4,183,112)
6/30/2029	1,065,000	4.26%	(132,832)	(3,250,944)
6/30/2030	892,543	4.46%	(105,185)	(2,463,585)
	14,717,543		(2,463,585)	

* DS Fund balance less $14,895,000 needed to prepay

City of Glendale 2000 COP Refinancing Options
Exhibit B

Fixed Rate Bonds - Full

Year Ending	Debt Service	General Fund Payment	Net DS Fund Draw	Interest Earnings	Interest Income	DS Fund End Cash Balance
						15,177,457
6/30/2020	3,077,647	1,700,000	1,377,647	2.46%	339,475	14,139,286
6/30/2021	3,075,150	1,700,000	1,375,150	2.66%	339,526	13,103,662
6/30/2022	3,079,900	1,700,000	1,379,900	2.86%	335,300	12,059,061
6/30/2023	3,079,650	1,700,000	1,379,650	3.06%	326,790	11,006,201
6/30/2024	3,074,400	1,700,000	1,374,400	3.26%	313,997	9,945,798
6/30/2025	3,079,150	1,271,000	1,808,150	3.46%	281,563	8,419,210
6/30/2026	3,078,150	1,271,000	1,807,150	3.66%	242,001	6,854,062
6/30/2027	3,076,400	1,271,000	1,805,400	3.86%	194,878	5,243,540
6/30/2028	3,078,650	1,271,000	1,807,650	4.06%	139,497	3,575,387
6/30/2029	3,079,400	1,271,000	1,808,400	4.26%	75,274	1,842,261
6/30/2030	3,078,400	1,236,139	1,842,261	4.46%	(0)	(0)
	33,856,897	16,091,139	17,765,758		2,588,301	

Principal	30,261,000

Effective Interest Rate = 2.01%

City of Glendale 2000 COP Refinancing Options
Exhibit C

Fixed Rate Bonds - Prepay $15M						
Year Ending	Debt Service	General Fund Payment	Net DS Fund Draw	Interest Earnings	Interest Income	DS Fund End Cash Balance
						177,457
6/30/2020	1,546,641	1,700,000	(153,359)	2.46%	8,138	338,955
6/30/2021	1,547,650	1,700,000	(152,350)	2.66%	13,069	504,373
6/30/2022	1,544,650	1,700,000	(155,350)	2.86%	18,868	678,591
6/30/2023	1,544,400	1,700,000	(155,600)	3.06%	25,526	859,718
6/30/2024	1,546,650	1,700,000	(153,350)	3.26%	33,026	1,046,094
6/30/2025	1,546,150	1,360,000	186,150	3.46%	29,754	889,698
6/30/2026	1,542,900	1,360,000	182,900	3.66%	25,869	732,666
6/30/2027	1,546,900	1,360,000	186,900	3.86%	21,067	566,833
6/30/2028	1,547,650	1,360,000	187,650	4.06%	15,395	394,578
6/30/2029	1,545,150	1,360,000	185,150	4.26%	8,922	218,349
6/30/2030	1,544,400	1,326,051	218,349	4.46%	0	0
	17,003,141	16,626,051	377,090		199,633	

Principal 15,207,000

Effective Interest Rate = 2.01%

City of Glendale 2000 COP Refinancing Options
Exhibit D

Variable Rate Direct Purchase - Full

Year Ending	Debt Service	Renewal Costs	Total	General Fund Payment	Net DS Fund Draw	Interest Earnings	Interest Income	DS Fund End Cash Balance
								15,177,457
6/30/2020	2,904,071	30,000	2,934,071	1,700,000	1,234,071	2.46%	343,007	14,286,394
6/30/2021	3,048,183	-	3,048,183	1,700,000	1,348,183	2.66%	344,156	13,282,367
6/30/2022	3,231,285	-	3,231,285	1,700,000	1,531,285	2.86%	336,081	12,087,163
6/30/2023	3,233,925	30,000	3,263,925	1,700,000	1,563,925	3.06%	322,011	10,845,249
6/30/2024	3,313,547	-	3,313,547	1,700,000	1,613,547	3.26%	300,953	9,532,655
6/30/2025	3,297,312	-	3,297,312	1,725,000	1,572,312	3.46%	275,428	8,235,771
6/30/2026	3,373,415	30,000	3,403,415	1,725,000	1,678,415	3.66%	239,999	6,797,355
6/30/2027	3,438,482	-	3,438,482	1,725,000	1,713,482	3.86%	196,237	5,280,110
6/30/2028	3,497,692	-	3,497,692	1,725,000	1,772,692	4.06%	142,401	3,649,819
6/30/2029	3,551,045	30,000	3,581,045	1,725,000	1,856,045	4.26%	76,415	1,870,188
6/30/2030	3,603,540	-	3,603,540	1,733,352	1,870,188	4.46%	0	0
	36,492,498	120,000	36,612,498	18,858,352	17,754,146		2,576,690	

Principal 29,895,000

Effective Interest Rate = 3.39%

City of Glendale 2000 COP Refinancing Options
Exhibit E

Variable Rate Direct Purchase - Prepay $15M

Year Ending	Debt Service	Renewal Costs	Total	General Fund Payment	Net DS Fund Draw	Interest Earnings	Interest Income	DS Fund End Cash Balance
								177,457
6/30/2020	1,485,571	30,000	1,515,571	1,700,000	(184,429)	2.46%	8,902	370,789
6/30/2021	1,598,783	-	1,598,783	1,700,000	(101,217)	2.66%	12,555	484,561
6/30/2022	1,569,785	-	1,569,785	1,700,000	(130,215)	2.86%	17,583	632,359
6/30/2023	1,615,025	30,000	1,645,025	1,700,000	(54,975)	3.06%	21,032	708,366
6/30/2024	1,637,248	-	1,637,248	1,700,000	(62,752)	3.26%	25,138	796,257
6/30/2025	1,667,163	-	1,667,163	1,570,000	97,163	3.46%	24,189	723,283
6/30/2026	1,689,415	30,000	1,719,415	1,570,000	149,415	3.66%	21,004	594,872
6/30/2027	1,704,183	-	1,704,183	1,570,000	134,183	3.86%	17,783	478,472
6/30/2028	1,716,643	-	1,716,643	1,570,000	146,643	4.06%	13,472	345,302
6/30/2029	1,726,795	30,000	1,756,795	1,570,000	186,795	4.26%	6,752	165,259
6/30/2030	1,739,640	-	1,739,640	1,574,381	165,259	4.46%	(0)	(0)
	18,150,249	120,000	18,270,249	17,924,381	345,868		168,411	

Principal 14,895,000

Effective Interest Rate = 3.39%