AGENDA REPORT

FINANCE DEPARTMENT

DATE: October 5, 2021

TO: Mayor Butt and Members of the City Council

FROM: Anil Comelo, Interim Deputy City Manager

SUBJECT: Pension Obligation Bonds Series 2005B

STATEMENT OF THE ISSUE:

The City currently has outstanding $145.9 million of variable rate Pension Obligation Bonds, Series 2005 (the "2005 Bonds".) The City is also party to two interest rate swaps (the "Swaps") associated with the 2005 Bonds. The 2005 Bonds and Swaps are scheduled to mature in 2034. However, one of the Swaps (the "B-2 Swap") is subject to mandatory early termination on August 1, 2023, before which time the City will need to either (a) arrange financing to pay the market value of the B-2 Swap upon such early termination (currently ~$36 million) or (b) amend the B-2 Swap to remove or delay the mandatory early termination.

In addition, the 1-month LIBOR[1] benchmark rate upon which 2005 Bonds interest costs are based will be phased out in 2023, creating the potential for adversarial proceedings with Bond holders and associated costs and uncertainty.

Current financial market conditions and other relevant facts and circumstances are favorable to address these issues now. Delay in acting entails risk of significantly less favorable future conditions and/or available alternatives.

RECOMMENDED ACTION:

DIRECT staff to complete negotiations with: (a) City National Bank ("CNB") with respect to a Loan Agreement to refinance the 2005 Bonds and Swaps and (b) Royal Bank of Canada ("RBC") with respect to amending the Swaps and, if concluded satisfactorily, to

[1] The London Interbank Offered Rate (LIBOR) is a benchmark interest rate at which major global banks lend to one another in the international interbank market for short-term loans.

bring an authorizing resolution and associated documents to the City Council for adoption as soon as feasible, optimally in fewer than 75 days.

FINANCIAL IMPACT OF RECOMMENDATION:

Relative to current City budget forecasts for the Series 2005 Bonds, the recommended action is estimated to have no impact on Fiscal Years 2021-22 and 2022-23, and to increase debt service costs by approximately $40,000 annually from Fiscal Years 2023-24 to 2034-35. The total present value cost of implementing the recommended action is estimated at $352,000. See Column 6 of Exhibit 1 hereto.

DISCUSSION:

I. BACKGROUND / HISTORY

On November 9, 2005, the City issued the 2005 Bonds, the proceeds of which were used to fund required CalPERS payments. The City effectively exchanged its CalPERS payment obligations for the debt service obligations on the 2005 Bonds. Relative to the CalPERS payment obligations, 2005 Bonds debt service resulted in expected (a) significant (~$25.7 million) budgetary savings Between Fiscal Years 2005-06 and 2013-14, (b) additional budgetary savings from Fiscal Years 2014-15 to 2020-21, and (c) overall positive present value savings.

To achieve the City's budgetary savings objectives, the 2005 Bonds included two series of convertible capital appreciation bonds ("CABs"). CABs do not require either principal or interest payments during an initial accretion period. Instead, they are sold at a discount and interest is added to principal periodically until the full maturity value is reached (August 1, 2013 for the 2005B-1 Bonds and August 1, 2023 for the 2005B-2 Bonds). See Exhibit 2 hereto for a schedule describing the 2005 Bonds' structure.

The original 2005 Bonds plan of finance anticipated a refinancing of the 2005B-1 Bonds and 2005B-2 Bonds on their respective full accretion dates in 2013 and 2023, respectively. However, to protect itself from a 'balloon' payment obligation that could not be refinanced economically on each of the respective full accretion dates, the 2005B Bonds provided for conversion to a current interest, variable rate (the "Index Mode") and for repayment of principal in installments from August 2014 through August 2034. The CABs structure was necessary to achieve the City's budgetary savings objectives and could not have been sold to investors at a reasonable cost with a fixed interest rate provision after full accretion.

Accordingly, the convertible CABs structure, while necessary to achieve the financing objectives, exposed the City to the risk of higher interest rates prevailing on and after the full accretion dates. This risk existed for both: (a) fixed rates in the case of a fixed rate refinancing, and (b) variable rates in the case of the 2005B Bonds converting to Index Mode. To protect against future higher interest rates, on November 7, 2007, the City entered into the Swaps with Bear Stearns Capital Markets Inc. ("BSCM"). The

Swaps protected (or “hedged”) against higher future interest rates. In the case of a fixed rate refunding in a higher interest rate environment, the Swaps would have been terminated early with a payment due to the City to offset the higher refunding bonds’ interest cost. In the case of neither a fixed rate refunding nor more attractive variable rate refinancing being available, the Swaps would effectively convert Index Mode bonds to the desired fixed rate.

On the August 1, 2013 full accretion and conversion date of the 2005B-1 Bonds, there was no fixed or variable rate refinancing option available to the City more attractive than the variable rate Index Mode on the 2005 Bonds of 1-month LIBOR + 1.40%, so the 2005B-1 Bonds converted to Index Mode and the 2005B-1 Swap cash flows commenced. The 2005B-1 Bonds and 2005B-1 Swap together have effectively resulted in the intended fixed rate obligation since August 1, 2013 without undue administrative, operational, or accounting difficulties.

On August 4, 2015, Moody’s downgraded the City’s issuer credit rating to Ba1. The Swaps contained a provision known as a ratings-based Additional Termination Event, or “ATE,” that protected BSCM from City credit quality deterioration below a certain level by allowing BSCM to terminate the Swaps and pay, or be paid, the then-current market value of the Swaps. JP Morgan, which had since acquired BSCM, informed the City that the Moody’s downgrade constituted an ATE and that it intended to terminate the Swaps and demand the then-current value of the Swaps of approximately $40 million. As a significantly more cost-effective alternative to issuing ~$40 million of fixed-rate, taxable pension obligation bonds to finance the termination payment to JP Morgan and leave the 2005B-2 Bonds unprotected from higher future interest rates, the City arranged for Royal Bank of Canada (“RBC”) to assume JP Morgan’s position in the Swaps. In order to assume JP Morgan’s position in the Swaps, RBC made a payment to JP Morgan in lieu of the City making a termination payment. RBC’s payment to JP Morgan was effectively a loan to the City to be repaid over the life of the swap. Given the City’s then-current credit quality situation, RBC was willing to extend this ’loan’ to the City only through 2023 rather than through the 2034 final maturity of the 2005B-2 Swap. This limitation manifested in requiring early termination of the 2005B-2 Swap on August 1, 2023. The provision gave the City over seven years (from January 2016 to August 2023) to improve its credit situation and otherwise position itself to implement a cost-effective refinancing structure for the 2005B-2 Bonds.

In addition to addressing the 2005B-2 Swap’s mandatory termination in 2023 and associated payment obligation, the related 2005B-2 Bonds require City attention and action. Most importantly, due to vastly improved interest rate market conditions in recent years, the 1-Month LIBOR + 1.40% interest cost of the Index Mode is now higher than can be achieved through available alternatives. Secondly, even if more cost-effective alternatives were not available, the expected 2023 cessation of 1-Month LIBOR publication exposes the City to significant uncertainty, including potential litigation costs, in attempting to negotiate replacement language for weekly interest rate reset mechanics with 2005B-2 Bond bondholders. In summary, then, the status quo of the 2005B-2 Bonds is neither desirable nor sustainable.

The City's current credit quality situation, other relevant facts and circumstances, and interest rate market conditions are such that the City is well-positioned to address the issues related to the 2005B-2 Swap and the 2005 Bonds in a cost-effective and otherwise favorable manner.

II. REASON TO TAKE ACTION NOW

With the 2005B-2 Swap mandatory termination date and 2005B-2 Bonds conversion date each being August 1, 2023, the City is not required to take action immediately. Given that some financing options, including preparation, sale, and closing of fixed-rate bonds, would require an estimated 6-8 months to complete, the City could reasonably treat December 1, 2022 as the latest date on which to initiate a refinancing plan for the 2005B-2 Swap and 2005B-2 Bonds.

However, delay involves the significant risks of:

1. Less favorable future debt market conditions;
    a. The recommended action includes a 13-year bank loan with substantially bond-like provisions. This structure has not been available in the past and may not be available in the future, particularly at current pricing levels;
    b. Current 'credit spreads' for instruments such as the City's pension obligations are at or near historical lows, which means the City's theoretical taxable borrowing rates are also at or near historical lows;
    c. The economic impact of these historically low credit spreads on the City's available alternatives is substantial. Currently available economics are more than $10 million better than those available in late October 2020. There is no assurance that these favorable conditions will remain available to the City for any number of months; and
2. Future City-specific negative developments or events, particularly those adversely affecting the City's credit ratings or perceived credit quality.

III. HISTORICAL RESEARCH / MONITORING

As indicated above, the convertible CABs approach was the only financing structure available in 2005 that achieved the City's key budgetary relief objectives. Absent those objectives, a traditional fixed rate bond issue structure would almost certainly have been utilized. Similarly, the Swaps were the only available means of protecting against the interest rate exposure created by the convertible CABs structure. The City, its financial consultants and counsel, and the investment banking community covering Richmond have been aware since 2005 that the City would prefer: (a) a less expensive cost basis than dictated by the 1-Month LIBOR + 1.40% Index Mode, and (b) less complexity and risk than contained in the Swaps. However, despite consistent and otherwise diligent monitoring, until 2021, available refunding/restructuring options were cost prohibitive (e.g, greater than $10 million present value cost). This was due to a combination of factors, including: (1) large credit spreads required by investors to purchase new City pension obligation bonds (either fixed or variable), and (2) costs associated with the 2005B-2 Bonds not being subject to early redemption until August 2023.

IV. Current Market Conditions / Available Alternatives

Ongoing monitoring of bond financing options, including prevailing taxable borrowing rates, and ongoing inquiries to the commercial and investment banking communities since the April 6, 2021 City Council meeting have resulted in improvements to available options. In summary:

Features	Option 1: Do Nothing Today	Option 2A: New POBs / Public Sale	Option 2B: New POBs / Private Placement	Option 3: Loan Agreement / Modify Swap
Description	• Leave current structure in place • Address in 2023	• Refund POBs in public capital market and terminate swaps	• Refund POBs through a private placement and terminate swaps	• Refund POBs with CNB Loan and 'buy down' swaps • Modify swaps to replace LIBOR and reduce rate
Cost (NPV)	• **Unknown**	• **$3.68 million** • **$419,073 annually**	• **$7.39 million** • **$841,742 annually**	• **$352,000** • **$41,209 annually**
Execution Risk	• **Unknown**	• **High**	• **Medium**	• **Low**
Execution Complexity	• **Unknown**	• **High**	• **High**	• **Low**
Long-Term Risk	• **Unknown**	• **Low**	• **Low**	• **Downgrade below BBB**
Long-Term Complexity	• **Unknown**	• **Low**	• **Low**	• **Medium (retains swap)**
Advantages	• Chance of better outcome	• Bondholders take downgrade risk	• Bondholder takes downgrade risk • Pricing locked in soon	• Lowest cost • Modest demands / risks
Disadvantages	• Risk of worse outcome	• Interest rates not locked in for 6-8 months	• Higher cost relative to other alternatives	• Retains downgrade risk
Time to Complete	• **Unknown**	• **~6-8 months**	• **~4-6 weeks for pricing; ~6-8 months to close**	• **< 2 months**

A. VIABLE ALTERNATIVES SUMMARY DESCRIPTIONS

1. **<u>CNB Loan Structure</u>**: A 13-year loan product from City National Bank ("CNB"), a subsidiary of RBC, is now available that results in an estimated net present value cost to the City of ~$352,000 relative to current budget;

    a. The CNB Loan is variable rate, so while it would finance the ~$36 million 2005B-2 Swap market value payment, it would require a new/amended swap at a current market rate of ~1.50% and a starting market value of $0;

        i. Staff and City advisors assess the risks associated with the amended, on-market swap as modest – see discussion in Detail section below.

        ii. This structure incorporates a superior version of the "Amend the 2005B-2 Swap" scenario previously presented to City Council in April, so removes the rationale to continue considering that alternative.

    b. The CNB Loan also differs from a traditional, fixed-rate bond solution in that it would contain interest rate pricing increases that would become effective if the City's credit rating is downgraded;

        i. Staff and City advisors evaluate the magnitude of this risk as unlikely to be greater than the current pricing advantage of the CNB Loan structure – see discussion in Detail section below.

    c. CNB has indicated it is willing to structure the Loan to the 2034 maturity date of the 2005 POBs, a significantly longer tenor than is typically available for structures of this type, which eliminates the renewal risk that would exist for similar structures;

    d. The CNB Loan structure does not require a new credit rating or public offering document and requires modest documentation relative to a bond offering;

    e. Estimated completion time upon City Council's direction is 4 to 6 weeks; and

    f. Pricing is not expected to be subject to significant changes during this short execution period.

2. **<u>Public Offering - Fixed Rate Bonds</u>**: Fixed-rate bond credit spreads have narrowed to the level that, <u>if available when the City is ready to issue bonds in 6 to 8 months</u>, would result in a cost to the City relative to current budget of a potentially acceptable $3.7 million present value ($3.35 million higher than the recommended CNB Loan structure);

    a. Fixed rate bonds would transfer all risks to bondholders;

    b. City Staff, counsel, and consultants estimate that a fixed-rate bond offering would require 6 to 8 months to complete;

        i. Financing costs are at historically low levels for a City pension obligation. With each 0.10% interest rate increase translating into $1.23 million in incremental net present value costs, the actual incremental cost of this alternative over the recommended action when it is ready for sale in 6 to 8 months is unknown but could easily approach $10 million on a net present value basis relative to the current budget for 2005 POB debt service.

3. **Private Placement - Fixed Rate Bonds**: At least one investment bank surveyed expressed interest in potentially buying the City's bonds before a bond rating and public disclosure document are available. The City would then have approximately 6 months to deliver the rating and completed offering document.
    a. In exchange for taking on the risk that market credit spreads could widen out before the rating and disclosure document can be delivered (and the Bonds then offered for re-sale), the purchasing bank would need to increase the offering yields by an estimated 0.25% to 0.40%.
        i. Assuming a 0.30% yield premium, this is approximately $3.7 million on a net present value basis relative to a publicly offered pension bond solution and a total of $7.04 million higher than the recommended CNB Loan structure
    b. While this Private Placement option substantially reduces the risk of higher financing costs being incurred after 6 to 8 months of public offering preparations, the $7.04 million (conservatively) expected incremental cost relative to the recommended CNB Loan option, in the opinion of Staff and the City's consultants, is greater than the incremental, downgrade-related risks associated with the CNB Loan option.
4. **No Action**: As indicated above, the City is not absolutely required to initiate action until late 2022. However, choosing not to act now would expose the City to potentially expensive and otherwise problematic changes in market conditions, available alternatives, and City circumstances.

B. DETAILED DESCRIPTION OF AVAILABLE ALTERNATIVES

THE CNB LOAN STRUCTURE

City National Bank is headquartered in Los Angeles and is a subsidiary of RBC. Prior conversations with RBC centered around RBC effectively lending the 2023 mandatory termination payment to the City and embedding the cost of that loan into an amended Swap. While ultimately willing to do this, CNB's business structure is better suited than RBC's to making long-term loans at attractive pricing. Additionally, RBC was aware that, with respect to the 2005B-2 Bonds, the City also desired to address both (a) the LIBOR replacement language issue and (b) whether a rate lower than the LIBOR + 1.40% Index Mode rate could be achieved under current, historically attractive credit spread conditions.

RBC conversations with CNB representatives resulted in a willingness on the part of

CNB to provide the City with a line-of-credit type loan. Mechanically:

1. The City would make an initial draw of approximately $56 million to pay:
    a. The 2005B-1 Swap termination cost (and terminate the 2005B-1 Swap);
    b. The redemption cost of the outstanding 2005B-1 Bonds;
    c. The market value of the 2005B-2 Swap;
        i. The fixed pay rate on the 2005B-2 Swap of 5.665% would then be reduced to the current, on-market rate, including RBC compensation, of 1.50%; and
    d. All transaction costs.
2. On August 1, 2023, the City would make a second draw of ~$128 million to redeem the B-2 Bonds upon their full accretion.
3. Interest on the CNB Loan would be payable periodically at a variable rate based on the Secured Overnight Funding Rate (or "SOFR") plus a spread;
    a. For example, SOFR + 1.00%
4. The 2005B-2 Swap would be amended to exactly match the amortization of the CNB Loan and the payment dates and variable rate reset provisions;
    a. The Amended Swap would also pay variable interest based on SOFR + a spread, leaving the City with a net fixed rate; for example:
        i. pay SOFR + 1.00%;
        ii. receive SOFR + 0.11% from Amended Swap;
        iii. pay fixed swap rate of 1.50%;
        iv. net fixed cost is 1.50% plus 0.89%, or 2.39%.

The CNB Loan would be identical to a bond in its characteristics of being permanent financing – e.g., it would not subject to early termination or acceleration for downgrade events. Unlike a traditional fixed rate bond, the CNB Loan would contain "downgrade pricing." For example:

S&P Issuer Credit Rating	**SOFR Spread**
A+ and above **(Currently AA-)**	1.00%
A	1.05%
A-	1.15%
BBB+	1.35%
BBB	1.60%
BBB- and below or unrated	2.00%

Under current market conditions, the all-in interest rate of the CNB Loan and Amended Swap structure is most likely at least 0.30% more favorable than fixed rate bond indications. Arguably then, if a bond offering could be completed under current market conditions, the City's economics would be substantially equal to the bond offering costs if downgraded to BBB+, better if it retains ratings above BBB+, and worse if its rating falls below BBB+. As indicated on Exhibit 3, the timing of any downgrade is also significant in that any downgrade occurring in later years would have a smaller impact on City economics because it would be applicable for a shorter period of time and apply to a smaller amount of outstanding principal. See Exhibit 3.

Additionally, the City should note that increased interest costs being incurred at a time of existing downward pressure on City credit ratings is likely to be considered particularly unwelcome. Accordingly, the City should consider this downgrade pricing to be a significant disadvantage relative to bonds if it assigns any significant probability to being downgraded below BBB+.

Similarly, the CNB Loan is a variable rate loan and, therefore, retains the need for an Amended Swap with an ATE below BBB. The Amended Swap will have a fixed pay rate of ~1.50% and, therefore, no potential for a negative value to the City of more than $10 million unless interest rates fall below their previous historical lows. See Exhibit 4. It is also unlikely that RBC would force the City into a default situation if the City were unable to finance a large termination payment. However, there is no assurance that a termination payment would not be substantial or that RBC would be cooperative, so the existence of the ATE upon downgrade could be considered a material disadvantage of the CNB Loan structure depending on how significant the probability is that the City's credit rating could be downgraded below BBB in the future.

TRADITIONAL FIXED RATE BONDS - PUBLIC OFFERING

Estimated credit spreads over U.S. Treasury rates at which the City could currently sell fixed rate pension obligations are at historically low levels. However, these attractive levels may not remain available. Accordingly, with incremental dollar costs to the City of ~$1.5 million ($1.23 million PV) for each 0.10% increase in net financing cost, staff assigns considerable risk to any delay in implementing a bond financing.

City Staff, counsel, and consultants estimate that a fixed-rate bond offering would require 6 to 8 months to complete while challenging available City resources. While it would not be unreasonable to conclude that the lower levels of risk and complexity associated with fixed rate bonds justify a higher cost, due to the extended execution period, Staff cannot accurately quantify the cost differential to the CNB Loan structure. Staff assesses the downgrade-related risks inherent in the CNB Loan structure as moderate, including confidence in the City's ability to maintain its S&P Issuer Credit Rating at or above BBB+.

The Private Placement structure estimated 0.25% to 0.40% premium to transfer this market risk to a third-party bank is a valid, real-world data point on which to base an adjustment to the fixed rate bond costs for comparison purposes. Using an arguably optimistic 0.30% adjustment for comparison purposes, the fixed-rate bond issue options are $7.04 million more expensive than the CNB Loan structure. This cost differential roughly correlates to a breakeven with the CNB Loan structure assuming a 100% certainty of a City downgrade to BBB within the next two years. Accordingly, it is only if the City assigns a material probability to a downgrade below BBB that a rationale for the fixed rate bond option would be persuasive.

TRADITIONAL FIXED RATE BONDS – PRIVATE PLACEMENT

The Private Placement structure anticipates execution of a Bond Purchase Agreement ("BPA") with an investment bank after an abbreviated (6 to 8 week) due diligence and documentation process. The bond rates would be established and the issuance would fund and close at that time. The City would then need to deliver a public Standard & Poor's rating of AA- within 90 days and complete preparation of an Official Statement within 180 days. If the public rating is lower than AA-, the bond rates would increase, but the City would have this same risk if it waited to sell bonds through a traditional offering.

Because the purchasing bank would be limited in its ability to re-sell the bonds until the rating and Official Statement are received, it would have risk that credit spreads for instruments such as the Bonds increase, thereby reducing the value of the bonds while they are held. The purchasing bank would charge a yield premium to current public offering yields of from 0.25% to 0.40% as compensation for effectively transferring this risk from the City to the purchasing bank. This is substantially the same risk that the City would face if it chose to wait the estimated 6 to 8 months required to be able to price a public offering.

Other than the order in which required steps are completed, the private placement method of selling fixed rate bonds would be substantially similar to a traditional public bond offering financing process.

SOLE SOURCE RATIONALE

The preliminary terms being offered by CNB on its loan agreement are materially more favorable than generally available in the bank credit markets today. City consultants have surveyed a number of commercial banks active in providing products such as these to municipal clients. While pricing indications were not provided, several of the expected features of the CNB Loan are not available from other providers – namely, 13-year tenor and absence of acceleration provisions upon downgrade. In general, tenors (i.e., maturity dates) for lines of credit tend to be in the 3-year to 5-year range, meaning a structure with another bank or banks likely would require at least two additional renewals of the facility prior to the 2005 Bonds' maturity in 2034. This would expose the City to significant uncertainties regarding the availability and cost of these facilities upon renewal. Further, we anticipate the CNB Loan will not contain a provision typical of municipal lines of credit, which permit the bank to accelerate the loan if the credit rating falls below a certain threshold (e.g., BBB). We do not expect any other bank would be willing to waive this provision, thus introducing another incremental risk to the City.

Lastly, while the City could issue a request for proposals to commercial banks soliciting bids for lines of credit, that process likely would add at least two months to the timeline to complete a transaction and would require additional staff resources and would add to consultant costs, without the expectation that such a process would produce a better structure than currently is contemplated. Additionally, the City could not expect CNB and RBC to hold their currently proposed terms if it undertook such a process.

RECOMMENDATION

Assuming successful final negotiations on pricing and other material terms and provisions, Staff recommends the CNB Loan structure over conventional bond alternatives based on:

1. superior current economics;
2. ability to execute the transaction in a timely manner and without significant exposure to unfavorable changes in market conditions or other relevant facts and circumstances that could add millions of dollars to City costs;
3. Staff's assessment that the incremental risks of the CNB Loan structure are manageable and otherwise do not rise to the level of off-setting the structure's benefits. Specifically:
    a. Credit ratings downgrade risk:
        i. While some factors affecting the City's credit ratings are beyond the City's control, the five (5) level reduction (from AA- to BBB) within the next two years necessary to produce worse economics than otherwise even optimistically available alternatives is highly unlikely if the City maintains prudent fiscal policies.
    b. CNB Loan downgrade pricing:
        i. a downgrade, within the next two years, from the City's current AA- S&P Issuer Credit Rating of five (5) levels to BBB would be necessary to produce worse economics than those estimated for a public bond offering sold today;
        ii. a public bond offering would require 6-8 months to complete, during which time currently favorable market conditions may no longer exist. A private placement bond offering cost is the more appropriate cost comparison. At an estimated incremental cost relative to the CNB Loan structure of $7.04 million for the private placement option, a downgrade, within the next two years, from the City's current AA- S&P Issuer Credit Rating of six (6) levels to BBB- would be necessary to erase the economic advantage;
    c. Swap termination upon downgrade risk:
        i. The necessary, amended swap is expected to maintain the current ratings-based Additional Termination Event upon an S&P Issuer Credit Rating downgrade to BBB-.
            1. Staff considers such a downgrade event unlikely and entirely avoidable assuming prudent financial management;
            2. The amended swap will have a current market fixed pay rate of approximately 1.50%, significantly reducing the potential for a large termination payment ever being owed to RBC.
            3. In the event of a downgrade to BBB- with a large City payment being due, RBC's interests would almost certainly be aligned with the City's in arranging for full payment over time of both (x) Swap obligations and (y) loan payments to

RBC's subsidiary, CNB.

d. Other swap-related considerations:
    i. Administrative/accounting complexities: the City adopted procedures to manage the incremental administrative and accounting demands of swaps before 2010, including the B-1 Swap beginning in August 2013. The incremental demands are manageable.
    ii. Basis risk: the swap variable rate leg and CNB Loan interest provisions will match exactly – no basis risk will exist.
    iii. Counterparty risk: RBC's counterparty credit risk ratings are Aa2, AA-, and AA by Moody's, S&P, and Fitch, respectively.
        1. The City also has other protections available against counterparty non-performance.
    iv. Renewal risk of related variable rate bonds. Absent defaults such as City bankruptcy or a non-payment default, the CNB Loan is not subject to acceleration and creates no renewal-type risks.

DOCUMENTS ATTACHED:

Exhibit 1 – Available Options Estimated Debt Service Relative to Current Budget
Exhibit 2 – Original Series 2005 Pension Obligation Bond Capital Appreciation Structure (in $000's)
Exhibit 3 – Bank Lending Structure – Assessing Downgrade Pricing Risk
Exhibit 4 – Termination Value Sensitivity Analysis Illustration
PowerPoint Presentation to City Council