AGENDA: March 5, 2013

PORTERVILLE PUBLIC IMPROVEMENT CORPORATON

SUBJECT: CONSIDERATION OF REFINANCING 2005 CERTIFICATES OF PARTICIPATION (COP)

SOURCE: Administration

COMMENT: In June 1998, the City issued $20 million in Certificates of Participation (COP) for the purposes of financing the widening of bridges and streets. In November 2005, the City refunded the 1998 COP issue for debt service savings, with the preclusion that the new COP issue could not be refunded "tax exempt" sooner than July 1, 2015. However, the 2005 COP may be refunded with a taxable bond issue.

As has been reported to the City Council, staff has been meeting with Mr. John Fitzgerald and Mr. Ben Levine over the past several months, who have assisted the City with past bond issuances and refinances, including last year's refinancing of the 1997 Sewer Bond issue to fund the annexation sewer extension projects. The purpose of these recent meetings have been to evaluate the potential to take advantage of the current favorable financing environment to achieve significant debt service savings on the 2005 COP issue.

At its meeting on September 18, 2012, the City Council approved proceeding with a recommended financing approach to issue a taxable revenue bond, utilizing a Variable Rate Demand Obligation (VRDO) bond structure. One of the requirements of the VRDO refinance was to secure a bank Letter of Credit (LOC). During the course of meeting with banking institutions to secure the LOC, several of the banks declined to provide a LOC either because they have been (or potentially will be) "burned" in recent municipal bankruptcies (Vallejo, San Bernardino, and Stockton) or the refinance amount was either too small or beyond their capacity. One bank, Rabobank, has indicated significant interest to work with the City, however, not in a VRDO financing structure but rather in a direct lending relationship.

One of the highest rated banks internationally, and given their business model emphasis on agriculture, Rabobank is interested in increasing its presence in the Central Valley, including the South Tulare County/Porterville area. Rabobank has completed its preliminary due diligence of the City's finances, and satisfied with its review, has offered a Term Sheet for the City's consideration.

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Given the Term Sheet offered by Rabobank, the City would defease the 2005 COP issue with a total loan amount of up to $25 million, and in turn make interest-only payments for three years based upon a fixed 3.3% interest rate, followed by a 15 year loan with 25 years amortization (15/25) at United States Dollar (USD) 1-month Libor +2.125%. As of February 27, 2013, USD Libor is 0.20370%, and over the past two years has not exceeded 0.3%. If funding were to occur by July 1, 2013, the City is projected to save $1,228,942 in debt service payments through July 1, 2015, when the City could again evaluate a tax-exempt bond issuance, or save an additional $553,250 in evaluating the issuance by July 1, 2016.

With the Federal Reserve indicating that the federal funds rate will be held near zero through at least mid-year 2015 (currently 0.25%), the City should be in a prime position with the option to switch from the direct loan to either a variable or fixed rate tax exempt bond issue, thus affording the City with the most flexibility in the future.

Given the Porterville Public Improvement Corporation was the authority under which the 2005 COP was issued, a draft resolution has been provided to the Corporation to authorize the City Manager to sign the offered Term Sheet, and allow Rabobank to begin the proceedings toward the refunding of the 2005 COP issue in a direct lending structure.

RECOMMENDATION: That the City Council, sitting as the Board of Directors for the Porterville Public Improvement Corporation, consider proceeding with the refunding of the 2005 COP through direct lending by Rabobank, and authorize the City Manager to sign the offered Term Sheet.

ATTACHMENT:

1. Rabobank Term Sheet
2. Draft Resolution
3. City Council Staff Report: September 18, 2012

Rabobank

The City of Porterville, Calif.
Indicative Terms and Conditions as of February 26, 2013

By accepting this term sheet the City of Porterville (the "City") agrees that (i) it shall use the information contained herein solely for the purpose of evaluating a possible transaction between the City and Rabobank, N.A. (the "Bank") and for no other purpose and (ii) the City and its representatives will keep confidential and not disclose any of such information to any third parties other than its financial advisor and legal counsel, including the fact that the City is considering a possible transaction with the Bank. *The terms and conditions contained in this proposal are not intended to be exhaustive or all-inclusive.*

Borrower:	City of Porterville
Bank:	Rabobank, N.A.
Purpose:	Proceeds will be used to prepay the Certificates of Participation executed and delivered on December 1, 2005 (the "2005 Certificates").
Amount:	Up to $25,000,000, including principal, interest and expenses.
Terms:	3.3% during interest-only period for 3 years followed by 17 year term at USD 1-month Libor +2.125%.
Nature of Obligation and Repayment:	Principal security consists of a covenant to budget and appropriate lease payments (the "Obligation") pursuant to lease-leaseback structure that is identical to the 2005 Certificates. Principal to be paid annually and Interest to be paid semiannually.
Facility Fee:	$85,000.
Prepayment Penalty:	None.
Legal Fees/Expenses of Bank Counsel:	$25,000.
Bank Counsel:	Fulbright & Jaworski L.L.P.
Opinion of City's Counsel:	The Bank shall receive an opinion of bond counsel to the City acceptable to the Bank, including among other things an opinion that the Obligations have been duly and validly authorized by the City and when issued and delivered will each constitute a legal valid and binding obligation of the City, enforceable in accordance with its terms and that the 2005 Certificates are legally defeased.
Special Covenants:	City will provide audited financial statements within 200 days following the end of each fiscal year.

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City will provide unaudited (internally prepared) cash based financial statements within 60 days following the end of each calendar quarter.

City will provide budget annually as well as mid-year revisions, if any.

City shall maintain a debt service reserve fund under the lease designated by the city for repayment of the Obligations, equivalent to $1,000,000 that may be funded in part with proceeds.

The City shall maintain standard insurance coverages pursuant to the lease in connection with the Obligations, including rental interruption insurance.

Credit Approval and Offer Expiration:	**Any offer by the Bank in connection with the proposed transaction will be subject to the Bank's satisfactory completion of its due diligence review of the City and final credit approval by the Bank.** The Bank anticipates able to provide its final credit decision within 2 weeks of being given the mandate to provide the loan. The terms described herein expire March 15, 2013 unless extended by the Bank.
Absence of Fiduciary Relationship:	The City acknowledges that the transactions described in this document are arms'-length commercial transactions and that the Bank is acting as principal and in its best interests. The City is relying on its own experts, lawyers and advisors to determine whether the transactions described in this document are in its best interests. The City agrees that the Bank will act under this document as an independent contractor and that nothing in this document, the nature of the Bank's services or in any prior relationship will be deemed to create an advisory, fiduciary or City relationship between the Bank, on the one hand, and the City, on the other hand. In addition, the Bank may employ the services of its affiliates in providing certain services in connection with the transactions described in this document and may exchange with such affiliates information concerning the City that may be the subject of the transactions described in this term sheet. **Please note that the Bank and its affiliates do not provide tax, accounting or legal advice. The Bank and its advisors are not serving as a municipal advisor to the City.**
Anti-tying Disclosure:	The extension of commercial loans or other products or services to the City by the Bank or any of its subsidiaries will not be conditioned on the City's taking other products or services offered by the Bank or any of its subsidiaries or affiliates. The Bank will not vary the price or other terms of any product or service offered by the Bank or its subsidiaries on the condition that the City purchase another product or service from the Bank or any affiliate. The Bank will not require the City to provide

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	property or services to the Bank or any affiliate as a condition to the extension of a commercial loan to the City by the Bank or any of its subsidiaries. The Bank will not require the City to refrain from doing business with a competitor of the Bank or any of its affiliates as a condition to receiving a commercial loan from the Bank or any of its subsidiaries.
Bank Contact:	Ian Carroll Senior Vice President Rabobank, N.A. 915 Highland Pointe Suite 350 Roseville, California 95678 916-878-4655 (office) 916-494-9770 (cell) Ian.Carroll@Rabobank.com
Acknowledged and Consented:	By:____________________ City Manager JOHN LOLLIS

This document has been prepared by the Bank for information purposes only. This document is an indicative summary of the terms and conditions of the transaction described herein and may be amended, superseded or replaced by subsequent summaries. The final terms and conditions of the transaction will be set out in full in the applicable binding transaction document(s).

This document shall not constitute a commitment to participate in the transaction described herein, which shall be subject to the Bank's internal approvals. No transaction or services related thereto is contemplated without the Bank's subsequent formal agreement. The Bank is acting solely as principal and not as advisor or fiduciary. Accordingly you must independently determine, with your own advisors, the appropriateness for you of the transaction before investing or transacting. The Bank accepts no liability whatsoever for any direct, consequential or other losses arising from the use of this document or reliance on the information contained herein.

The Bank does not guarantee the accuracy or completeness of information which is contained in this document and which is stated to have been obtained from or is based upon trade and statistical services or other third party sources. Any data on past performance, modelling or back-testing contained herein is no indication as to future performance. No representation is made as to the reasonableness of the assumptions made within or the accuracy or completeness of any modeling or back-testing. All opinions and estimates are given as of the date hereof and are subject to change. The information in this document is not intended to predict actual results and no assurances are given with respect thereto.

The Bank, its affiliates and the individuals associated therewith may (in various capacities) participate in transactions identical or similar to those described herein.

IRS Circular 230 Disclosure: The Bank and its affiliates do not provide tax advice. Please note that (i)

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any discussion of US tax matters contained in this communication (including any attachments) cannot be used by you for the purpose of avoiding tax penalties; (ii) this communication was written to support the promotion or marketing of the matters addressed herein; and (iii) you should seek advice based on your particular circumstances from an independent tax advisor.

THIS DOCUMENT DOES NOT DISCLOSE ALL THE RISKS AND OTHER SIGNIFICANT ISSUES RELATED TO THE POTENTIAL TRANSACTION. PRIOR TO TRANSACTING, POTENTIAL PARTICIPANTS SHOULD ENSURE THAT THEY FULLY UNDERSTAND THE TERMS OF THE TRANSACTION AND ANY APPLICABLE RISKS.

RESOLUTION NO. ___________

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF PORTERVILLE, COUNTY OF TULARE, STATE OF CALIFORNIA, AUTHORIZING THE COMMENCEMENT OF PRECEEDINGS IN CONNECTION WITH THE REFUNDING OF THE CITY'S $20,850,000 CERTIFICATES OF PARTICIPATION (2005 INFRASTRUCTURE FINANCING PROJECT) PURSUANT TO A DIRECT PLACEMENT LEASE FINANCING WITH RABOBANK, N.A., AUTHORIZING THE EXECUTION OF A TERM SHEET WITH THE BANK AND APPOINTING A BOND COUNSEL, A PLACEMENT AGENT AND A FINANCIAL CONSULTANT IN CONNECTION THEREWITH

RESOLVED, by the City Council (the "Council") of the City of Porterville (the "City"):

WHEREAS, the City has determined at this time, due to prevailing interest rates in the municipal bond market and for other reasons, to provide for the refunding of the $20,850,000 Certificates of Participation (2005 Infrastructure Financing Project) (the "2005 Certificates");

WHEREAS, Rabobank, N.A. ("Rabobank") has provided the City with a term sheet, attached hereto (the "Term Sheet"), setting forth its indicative terms and conditions to provide funds to refund the 2005 Certificates pursuant to a direct placement lease financing;

WHEREAS, it is desirable to authorize the commencement of proceedings in connection with the refunding of the 2005 Certificates and to appoint a bond counsel, a placement agent and a financial consultant in connection therewith;

NOW, THEREFORE, it is hereby DECLARED and ORDERED, as follows:

The Council authorizes appropriate officers and officials of the City to proceed with the preparation of the necessary documents in connection with the refunding of the 2005 Certificates, subject to the final approval thereof by the Council at a subsequent meeting.

The City Manager or his designee is hereby authorized to execute the Term Sheet allowing Rabobank to submit the proposed financing to its credit committee to obtain final approval for the financing.

Quint & Thimmig LLP, San Francisco, California, is hereby designated as bond counsel to the City in connection with the financing, the compensation for such services to be negotiated by the City Manager or his designee.

Wulff, Hansen & Co., San Francisco, California is hereby designated as placement agent in connection with the financing, the compensation for such services to be negotiated by the City Manager or his designee.

Ravi Chitkara, Fremont, California, is hereby designated as financial consultant to the City in connection with the financing, the compensation for such services to be negotiated by the City Manager or his designee.

The Mayor, the Vice Mayor, the City Manager, Finance Director, the City Clerk and other appropriate officers and officials of the City are hereby authorized and directed to take such action and to execute such documents as may be necessary or desirable to effectuate the intent of this resolution.

This Resolution shall take effect from and after the date of its passage and adoption by this Council.

APPROVED AND ADOPTED this 5th day of March, 2013.

____
Virginia R. Gurrola, Mayor

ATTEST:
John Lollis, City Clerk

By: ____________________________
Patrice Hildreth, Chief Deputy City Clerk

COUNCIL AGENDA: September 18, 2012

SUBJECT: CONSIDERATION OF REFINANCING 2005 CERTIFICATES OF PARTICIPATION (COP)

SOURCE: Administration

COMMENT: In June 1998, the City issued $20 million in Certificates of Participation (COP) for the purposes of financing the widening of bridges and streets. In November 2005, the City refunded the 1998 COP issue for debt service savings, with the preclusion that the new COP issue could not be refunded "tax exempt" sooner than July 1, 2015. However, the 2005 COP may be refunded with a taxable bond issue.

Over the past several months, staff has been meeting with Mr. John Fitzgerald and Mr. Ben Levine, who have assisted the City with past bond issuances and refinances, including last year's refinancing of the 1997 Sewer Bond issue to fund the annexation sewer extension projects. The purpose of these recent meetings have been to evaluate the potential in continuing to take advantage of the current favorable bond rates and financing environment, specifically in reference to the 2005 COP issue. In coordination with Mr. Fitzgerald and Mr. Levine, options have been considered in the refinancing of this bond. Given current bond financing rates, the City could refund the 2005 COP issue with an annual debt service savings of $383,000 ($1,287,000 less $904,000) over the remaining 23 years of the original bond issuance for a total gross savings of approximately $8.8 million, with a net savings of approximately $2.5 million including the 7 years of additional debt service in a new issuance.

The recommended financing approach is to issue a taxable revenue bond, utilizing a Variable Rate Demand Obligation (VRDO) bond structure. The VRDO interest rate is a seven (7) day taxable interest rate tied to the 1 Month London Interbank Offered Rate (LIBOR), currently 0.23%, based upon the credit rating of a bank Letter of Credit (LOC). Current total annual costs would be 1.33%, including: 0.23% (current 1 Month LIBOR as of 09/12/12), 1.00% annual LOC fee (estimate), and 0.10% remarketing, rating, and trustee fees.

VRDO bonds require a remarketing agent who re-sets rates and remarkets the bonds, which may be paid down on a weekly basis (or off completely with 30-days notice) without a prepayment penalty. The bank LOC would effectively give access to investment grade rated financing (A+

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or better), resulting in a AAA rating. The VRDO market is significant, constituted primarily of money market mutual funds. Money market institutions invest under Investment Rule 2a-7, which requires high credit quality and liquidity with the right to put bonds back at any time on seven (7) days notice.

The bank LOC is estimated to be issued for an initial term of 2 to 10 years, with an annual rollover review. It is possible to renegotiate terms or bring in a substitute LOC provider on the rollover/review date. At the end of the initial 2-year term, a renewal would be negotiated every year thereafter.

With the Federal Reserve indicating that the federal funds rate will be held near zero through at least mid-year 2015 (currently 0.25%), and the 2005 COP issue becoming callable in July 2015, the City would be in a prime position given the option to switch from a taxable VRDO to either a variable or fixed rate tax exempt bond issue, thus affording the City with the most flexibility in the future. However, should the Federal Reserve significantly increase the federal funds rate prior to July 2015, and given the bonds reset interest rates every seven (7) days, the City can protect itself from rising rates through a variety of hedging strategies, either at the close of the transaction or at any time during the VRDO term. The best option to mitigate the risk of rising interest rates is to establish an interest rate cap, where the City will receive payments when an underlying interest rate index exceeds a specified cap rate. By setting the cap at the total amount of the potential bond issue ($22,000,000), the City would be protected if rates rise beyond the established cap and receive comparable compensation. The current LIBOR Cap Price for five (5) years at 5.00% is 43 basis points (0.43%), and for five (5) years at 4.00% is 55 basis points (0.55%).

For the Council's consideration, a draft resolution has been provided to begin the proceedings toward the refunding of the 2005 COP issue.

RECOMMENDATION: That the City Council consider proceeding with the refunding of the 2005 COP with the issue of a taxable revenue VRDO bond.

ATTACHMENT:
1. Presentation to Provide New Money Plan
2. Draft Resolution

City of Porterville

Presentation to Provide New Money Plan

July 20, 2012

Wulff, Hansen & Co.
Investment Securities and Municipal Financing • Established 1931

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City Needs

Wulff, Hansen has the commitment and resources necessary to ensure a successful financing for the City of Porterville

Wulff, Hansen understands the need for the most flexible financing structure that utilizes and reflects the City of Porterville's credit quality

Needs

- General Fund budget deficit solution
- Indiana Street bridge for Walmart Supercenter access

Situation

- In June 1998, City issued $20 million COP for widening bridges and roads
- In November 2005, City refunded 1998 COP issue for savings to General Fund
- The 2005 City COP issue cannot be refunded *tax exempt* until July 1, 2015
- **But, the 2005 City COP can be refunded now with a taxable bond issue**

Financing Approach

Wulff, Hansen brings an experienced and committed team with a well thought out plan.

Our suggested variable rate demand obligation proposal provides the City with the most flexibility. This flexibility meets the City of Porterville's unique criteria and takes advantage of market fluctuations, providing the City with the lowest possible overall rate and maximum flexibility, as market conditions change.

Solution (Rates & Costs are Estimated as of July 19, 2012)

- Issue a taxable revenue bond to refinance the 2005 COP issue
- Bond Structure: Variable Rate Demand Obligation (VRDO)
- Bond Life: 25+ years
- Interest Rate: 7 day taxable interest rate tied to 1 Month LIBOR, currently 0.24%, and based on the credit rating of the LOC provider
- All-in-annual costs of 1.34%: 0.24% current 1 Month LIBOR as of 5/1/12 + 1.00% annual LOC fee (preliminary estimate) + 0.10% remarketing, rating, and trustee fees
- VRDO can be paid down or off weekly without prepayment penalty
- Requires a remarketing agent when bonds are put back by bondholders
- VRDO market is huge, made up of money market funds

Benefits (Estimated as of July 19, 2012)

- Annual General Fund debt service savings: $383,000 per year
- If pay interest only first year, General Savings in year one: $1,234,000 and thereafter $383,000 per year

Future Options

Our proposal allows for the most flexibility in the future

When the 2005 COP issue becomes callable in July 2015, the City has the option to switch from a taxable variable rate demand obligation to either a variable or fixed rate tax exempt bond issue. This provides the City with the most flexibility in the future.

Solution

- Bond Structure: Tax Exempt Variable Or Fixed Rate Obligation
- VRDO Interest Rate: 7 day taxable interest rate tied to current SIFMA Index, currently 0.15% as of 7/19/12, and based on the credit rating of the LOC provider
- All-in-annual costs of 1.25%: 0.15% current SIFMA index + 1.00% annual LOC fee (preliminary estimate) + 0.10% remarketing, rating, and trustee fees
- VRDO can be paid down or off weekly without prepayment penalty

Benefits

- Over the past ten years, the average SIFMA benchmark is 1.62% and the 1 Month LIBOR benchmark is 2.40%

Plan of Finance: VRDO

Wulff, Hansen recommends a Variable Rate Demand Obligation solution that will provide maximum flexibility while meeting refinancing criteria

The City of Porterville has an opportunity to leverage bond markets to obtain the lowest cost of funds possible while maintaining financial flexibility. Such an offering would likely be made under Rule 506 of SEC Regulation D and sold to qualified institutional investor(s), mainly Money Market Funds. Highlights of this financing structure include:

- $22.22 million in bond financing provides necessary funds for the City of Porterville to refinance existing debt, including all financing costs, resulting in annual debt service savings.
- Bank letter of credit which effectively gives the City access to investment grade rated financing (A+ or better), possibly with a Federal Home Loan Bank wrap, resulting in a AAA rating.
- In the current variable rate market (as of 7/19/12), a Porterville bond financing would likely carry an estimated initial interest rate of 0.24% depending on the credit rating of the LOC provider and an annual-all-in cost of 1.34% (including fee components). This results in an estimated initial annual net debt service of $904,000 (30 year self-amortizing) compared to the existing debt service of $1,287,000, providing an annual savings of $383,000.
- Variable rate structure takes advantage of available credit enhancement, low interest rates and market demand for short term paper.

Annual All In Cost Calculation:

0.24% Variable Rate Benchmark LIBOR as of 7/19/12	+	1.00% Estimated Annual Letter of Credit Fee	+	0.10% Estimated Annual Remarketing Fee	=	**1.34% Estimated Annual All In Cost**

The money market institutional investors invest under Investment Rule 2a-7 which requires high credit quality and liquidity with the right to put the bonds back at any time on 7 days notice. The Letter of Credit fulfills these two functions.

Financing Summary

City of Porterville
Refunding $20,850,000 COP
(2005 Infrastructure Financing Project)
Taxable VRDO Bond Sizing & Savings

2012 Bond Sizing	
Escrow to Refund 2005 COP	$21,530,000
Less: 2005 COP Reserve Fund (Surety Funded)	0
New Reserve Fund	0
Cost of Issuance (1%)	224,000
Capitalized 1 yr LOC & Remarketing Fees (1.1%)	244,000
Underwriters Discount	222,000
Principal Amount of 2012 Bonds	**$22,220,000**
Savings	
Average Annual Debt Service 2005 COP to 2036	$1,287,000
Annual Cost Rate of 2012 Bonds: 1.34%	
(Interest Rate, 0.24%, + LOC + Remarketing Fees)	
Average Annual Cost of 2012 Bonds*	904,000
Average Annual Savings	**$383,000**
Alternative:	
Pay Interest Only Yr 1 of 0.24% or	$53,000
Year 1 Savings	**$1,234,000**

* Note: Assumes 30 yr bond to 2043, seven years longer than the 2005 Bonds; the present value extra seven years cost less than year 1 savings

** Note: All rates & costs are estimated as of July 19, 2012

Variable Rate Demand Obligation

Preliminary Financing Terms

	Considerations/Limitations
Use of Bond Proceeds	▸ Bond proceeds can be used to fund the City's infrastructure improvements, refund existing loans, and pay cost of issuance
Letter of Credit Term	▸ Estimated to be issued for an initial term of 2 - 10 years, with a yearly rollover review (Evergreen) ▸ It is possible to re-negotiate terms or bring in a substitute letter of credit provider on the rollover/review date ▪ At the end of the initial 2 year term, a renewal would be negotiated every year after
Bond Term	▸ 25+ years
Amortization	▸ Self-amortization over the term of the bond
Investor	▸ Money Market Mutual Funds
Interest Rate	▸ 7-day interest rate reset based on 1-month LIBOR benchmark and can be pre-paid or refinanced without penalty upon 30 days notice ▸ The Remarketing Agent would be in charge of re-setting rates and remarketing the bonds
Prepayment Penalty	▸ None

Variable Rate Demand Obligation

Preliminary Financing Terms (Continued)

	Considerations/Limitations
Hedge	▸ A variety of hedging strategies can be implemented either at the close of transaction or at any time during the term of the bonds ▸ These hedging strategies are complex and carry certain risks which will be explained at the time these strategies are considered ▸ Wulff, Hansen will educate The City of Porterville to give them a better understanding of the benefits, costs, and risks
Credit Enhancement	▸ Direct pay Letter of Credit (LOC) from a qualified bank ▸ If possible, a wrap will be explored as an additional guarantee from the Federal Home Loan Bank, creating a AAA rating
Estimated Closing Date	▸ September 2012

Risks & Mitigates

Interest Rate Risk – Because the bonds re-set interest rates every 7 days, rates could rise in the future and thus increase debt service requirements.

Mitigate – Use an interest rate swap, interest rate cap, or budget at higher rate and set up rate mitigation fund. Implementing a combination of the above may also be an ideal solution.

1. **Option 1: Interest-Rate Swap** – An interest-rate swap is a contract between two counterparties where they exchange future interest payments based on a specified principal amount. This option limits the City's exposure to fluctuations in future interest rates. As of July 19, 2012, the LIBOR Swap rate for 30 years is 2.33%. The average 1 month LIBOR weekly taxable rate over the past 10 years, including the period ending 7/19/2012, is 2.40%.

2. **Option 2: Interest-Rate Cap** – An interest-rate cap is an option that protects the City from rises in short term interest rates where they will receive payments when an underlying interest rate index exceeds a specified cap rate. By setting up a cap for the total amount of the bond issue ($22,220,000), the City will be protected if rates rise and receive compensation. As of July 19, 2012, the LIBOR Cap Price for 5 years at 5.00% is 43 basis points and at 4.00% is 55.

3. **Option 3: Interest-Rate Cap & Rate Mitigation Fund** - Set up a cap for $10,000,000 out of the $22,220,000 and begin paying down the principal through the rate mitigation fund whenever there are excess revenues. By paying off the principal in advance, you protect yourself from rising interest rates in the future because there will be less principal to pay off at that future rate.

Risks & Mitigates (Continued)

LOC Renewal Risk – Risk that the LOC provider does not renew its Letter of Credit at the end of the agreed upon initial term, an approximate 2 - 10 year term.

Mitigate – The Bond documents will set up provisions to mitigate the risks of the LOC Bank not renewing the Letter of Credit.

- Standard in the bond documents to have an advanced notice period of any such decision.
- Standard in the bond documents to have the option to bring in a substitute LOC provider, on then-current terms, at any time.
- Standard in the bond documents to have a 30 day notice call option on any reset date. This provides an opportunity for an alternative method of financing.
  - This option is similar to having a call provision without a pre-payment premium or time limitation. By fixing the rate, Wulff, Hansen would underwrite/place the bonds. **This option allows the City maximum flexibility to take advantage of improved credit quality, while providing the opportunity to fix the rate if market conditions warrant.**
  - If an interest-rate swap is in place, there may be costs involved that must be considered.
- Wulff, Hansen will attempt to negotiate an LOC with an Evergreen Provision where the 2 - 10 year term continually rolls over each year so that when one year is lost, another year is gained.
- The LOC Bank will generally work with the issuer to avoid drawing upon the Letter of Credit and will make every attempt to extend the LOC expiration date until a substitute LOC bank is found. Drawing upon the LOC is generally a last resort due to the bank's internal regulations. If this happens, the LOC bank will be responsible for the bonds and incorporate them in its own portfolio. The City will continue to make the agreed upon payments at a default rate negotiated at the time the LOC agreement is originally issued. The City will not be required to pay off the bonds at that time.

Risks & Mitigates (Continued)

LOC Provider Downgrade Risk – if the LOC Bank loses its investment-grade credit rating resulting in the bonds failing to be remarketed to Money Market Funds and a replacement LOC is not obtained.

The LOC bank will be responsible for the bonds and incorporate them in its own portfolio. The City of Porterville will continue to make the agreed upon payments at a default rate negotiated at the time the LOC agreement is originally issued. The City will not be required to pay off the bonds at that time.

Mitigate – Wulff, Hansen seeks a replacement Letter of Credit provider.

Mitigate – The 2008 crisis separated the strong, highly rated banks from the weak. We would only recommend an LOC provider that had a qualified credit rating.

Market Risk – Risk that the market conditions freeze the variable rate market or disrupt the orderly reset rates.

Mitigate – The market experienced these risks in 2008 and the Federal Reserve intervened which diminished the problem. Wulff, Hansen will recommend a strong, credit worthy bank for the Letter of Credit, thus diminishing the market risk.

Remarketing Failure – Risk that Remarketing fails.

Mitigate – The bank issuing the LOC is obligated to purchase the bonds and may convert the bonds into a commercial loan.

The City of Porterville will continue to make the agreed upon payments at a default rate negotiated at the time the LOC agreement is originally issued. The City will not be required to pay off the bonds at that time.

Overall Mitigate – Wulff, Hansen will attempt to obtain a Federal Home Loan Bank wrap, which we believe the City will qualify for, the renewal risk is mitigated by the credit enhancement from the wrap.

RESOLUTION NO.__________

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF PORTERVILLE, COUNTY OF TULARE, STATE OF CALIFORNIA, AUTHORIZING THE COMMENCEMENT OF PRECEEDINGS IN CONNECTION WITH THE REFUNDING OF THE $20,850,000 CERTIFICATES OF PARTICIPATION (2005 INFRASTRUCTURE FINANCING PROJECT) EVIDENCING DIRECT, UNDIVIDED FRACTIONAL INTERESTS OF THE OWNERS THEREOF IN LEASE PAYMENTS TO BE MADE BY THE CITY OF PORTERVILLE (TULARE COUNTY, CALIFORNIA), AS THE RENTAL FOR CERTAIN PROPERTY PURSUANT TO A LEASE AGREEMENT WITH THE PORTERVILLE PUBLIC FINANCING AUTHORITY, AND APPOINTING A BOND COUNSEL, A DISCLOSURE COUNSEL, A FINANCIAL CONSULTANT AND AN UNDERWRITER IN CONNECTION THEREWITH

WHEREAS, the City has determined at this time, due to prevailing interest rates in the municipal bond market and for other reasons, to provide for the refunding of the $20,850,000 Certificates of Participation (2005 Infrastructure Financing Project) evidencing direct, undivided fractional interests of the owners thereof in lease payments to be made by the City as the rental for certain property pursuant to a lease agreement with the Porterville Public Financing Authority (the "2005 Certificates");

WHEREAS, it is desirable to authorize the commencement of proceedings in connection with the refunding of the 2005 Certificates and to appoint a bond counsel, a disclosure counsel, a financial consultant and an underwriter in connection therewith;

NOW, THEREFORE, it is hereby DECLARED and ORDERED, as follows:

The Council authorizes appropriate officers and officials of the City to proceed with the preparation of the necessary documents in connection with the refunding of the 2005 Certificates, subject to the final approval thereof by the Council at a subsequent meeting.

Quint & Thimmig LLP, San Francisco, California, is hereby designated as bond counsel and disclosure counsel to the City in connection with the financing, the compensation for such services to be negotiated by the City Manager or his designee.

Ravi Chitkara, Fremont, California, is hereby designated as financial consultant to the City in connection with the financing, the compensation for such services to be negotiated by the City Manager or his designee.

Wulff, Hansen & Co., San Francisco, California is hereby designated as underwriter in connection with the financing, the compensation for such services to be negotiated by the City Manager or his designee.

The Mayor, the Vice Mayor, the City Manager, Finance Director, the City Clerk and other appropriate officers and officials of the City are hereby authorized and directed to take such action and to execute such documents as may be necessary or desirable to effectuate the intent of this resolution.

This Resolution shall take effect from and after the date of its passage and adoption by this Council.

APPROVED AND ADOPTED this 18th day of September, 2012.

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Virginia R. Gurrola, Mayor

ATTEST:
John Lollis, City Clerk

By: ______________________________
Patrice Hildreth, Chief Deputy City Clerk