

AGENDA
CITY OF RANCHO PALOS VERDES
NOTICE OF MEETING OF THE FINANCE ADVISORY COMMITTEE
FEBRUARY 26, 2014
COMMUNITY ROOM
30940 HAWTHORNE BOULEVARD
RANCHO PALOS VERDES

[Late Correspondence \(Click Here\)](#)

7:00 PM CALL TO ORDER

1. Roll Call
2. Approval of Agenda
3. Public Comments (This section of the agenda is for audience comments for items **NOT** on the agenda.)
4. Approval of Draft Minutes for the meeting conducted December 11, 2013
5. Funding the San Ramon Canyon Stabilization Project
6. Pension (oral update)
7. Banking Services (oral update)
8. Adjournment

American with Disabilities Act. In compliance with the Americans with Disabilities Act of 1990, if you require a disability-related modification or accommodation to attend or participate in this meeting, including auxiliary aids or services, please call the City Clerk's Office at 310 544-5208 at least 48 hours prior to the meeting.

NOTE: Staff reports are available for inspection at City Hall, 30940 Hawthorne Boulevard during regular business hours, 7:30 A.M. to 5:30 P.M. Monday – Thursday and 7:30 A.M. to 4:30 P.M. on Friday. Materials related to an item on this Agenda submitted to the Committee after distribution of the agenda packet are available for public inspection in the Finance Department at 30940 Hawthorne Boulevard, Rancho Palos Verdes during regular business hours.

Written materials, including emails, submitted to the City are public records and may be posted on the City's website. Accordingly, you may wish to omit personal information from your oral presentation or written materials as it may become part of the public record regarding an agenda item.

Materials related to an item on this Agenda submitted to the Finance Advisory Committee after distribution of the agenda packet are available for public inspection at the front counter of the lobby of the City Hall Administration Building at 30940 Hawthorne Boulevard, Rancho Palos Verdes during normal business hours.

You can also view the agenda and staff reports at the City's website www.palosverdes.com/RPV.

MINUTES
CITY OF RANCHO PALOS VERDES
FINANCE ADVISORY COMMITTEE
DECEMBER 11, 2013

Vice-Chair Stillo called the meeting to order at approximately 7:01 p.m. in the Community Room at 30940 Hawthorne Boulevard for the purpose of conducting business pursuant to the Agenda.

Roll call was answered as follows:

PRESENT: Alegria, Ho, James, O'Brien, Santarosa, Vice-Chair Stillo
ABSENT: Chair de la Rosa

Also present was Deputy Director Downs and Senior Analyst Mills.

APPROVAL OF AGENDA

Member Alegria moved for approval of the agenda. Member Santarosa seconded the motion. The agenda was approved unanimously by acclamation.

PUBLIC COMMENTS

None.

PENSION ASSIGNMENT UPDATE

Staff provided brief oral comments and answered Member questions. The Committee discussed the pension plan Actuarial Valuation Report, pension plan investments, the state's efforts for pension reform, and other relevant topics.

Staff indicated that it had an open inquiry with the pension plan's senior actuary regarding the Actuarial Valuation Report. Committee Members offered some questions to be included in the inquiry. Committee Members also suggested providing a sensitivity analysis with the 2014 Five-Year Model staff report regarding the impact of changes to the pension plan's discount rate.

Member James presented a draft Memorandum to the Committee, as late correspondence, to be considered as an update to the Committee's previous pension Memorandum to City Council. The Committee made a minor edit to the draft Memorandum.

Member Alegria moved for approval of the Memorandum to City Council, as amended. Member Santarosa seconded the motion. The amended Memorandum was approved unanimously by acclamation.

INFRASTRUCTURE FINANCING

Staff provided brief oral comments about the status of the Infrastructure Report Card and how it relates to the City Council's decision to debt finance the San Ramon Canyon stabilization project.

Member Santarosa requested an orientation or primer on the criteria and key points of the Infrastructure Report Card. Staff indicated that Committee Members would be contacted in January to set a meeting date in February.

BANKING SERVICES

Staff provided brief oral comments about the status of contract negotiations with Bank of the West.

APPROVAL OF DRAFT MINUTES FOR THE MEETING CONDUCTED JULY 24, 2013

Member O'Brien moved to approve the draft minutes, as presented. Member Alegria seconded the motion. The motion was approved unanimously by acclamation.

ADJOURNMENT

Member James moved to adjourn the meeting. Member Ho seconded the motion. Hearing no objection, Vice-Chair Stillo ordered the meeting adjourned at approximately 8:19 p.m.

John Stillo, Vice-Chair, Finance Advisory Committee

ATTEST:

Kathryn Downs, Recording Person



MEMORANDUM

**TO: HONORABLE CHAIR & MEMBERS OF THE FINANCE
ADVISORY COMMITTEE**

**FROM: DENNIS McLEAN, DIRECTOR OF FINANCE &
INFORMATION TECHNOLOGY
KATHRYN DOWNS, DEPUTY DIRECTOR OF FINANCE
& INFORMATION TECHNOLOGY**

DATE: FEBRUARY 26, 2014

**SUBJECT: FUNDING THE SAN RAMON CANYON
STABILIZATION PROJECT**

RECOMMENDATION

1. Receive and file the information within this Staff Report and its attachments; and
2. Prepare any comments and/or recommendations to the City Council.

BACKGROUND

Finance Advisory Committee Assignment

The 2012-13 Work Plan for the Finance Advisory Committee (FAC) included an assignment to "Review the Financing Plan for the San Ramon Canyon Stabilization Project". On March 6, 2013, the FAC recommended that a decision about debt financing the San Ramon Canyon Stabilization Project be postponed until after an Infrastructure Management Plan is underway. On May 7, 2013, the City Council awarded a contract to a consultant for preparation of an Infrastructure Report Card, which may be used to develop the City's initial Infrastructure Management Plan (IMP). On June 1, 2013, the City Council followed the FAC recommendation by deferring the decision until more information is available about the condition of the City's infrastructure, based upon completion of the Infrastructure Report Card.

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The City Council approved 2013-14 Work Plan for the FAC includes the following task.

“Study infrastructure financing alternatives in conjunction with Staff development of an Infrastructure Management Plan and make recommendations to the City Council”.

Staff has recommended preparation of an IMP; which would identify the City’s long-term infrastructure needs (both actual projects and patterns of rehabilitation/replacement), as well as funding options (e.g. use of restricted and non-restricted monies, new revenue sources, etc.). The IMP would also enable the City to better evaluate debt financing, if debt is required to meet long-term needs. Based on discussion during the Infrastructure Workshop and at a subsequent Council meeting, Staff expects the City Council will direct and appropriate the preparation of an IMP. Staff expects that additional reports will be presented to the FAC for study and development of recommendations to City Council.

Purpose of February 26th Meeting

The purpose of this meeting is for the FAC to consider funding options for the San Ramon Canyon Stabilization Project (the City Council’s highest-priority infrastructure project); which includes the option to finance a portion of the project through the issuance of debt.

When construction-related contracts for the Project were approved by the City Council on March 5, 2013, Public Works Staff reported the following:

“The City was awarded a grant from the Disaster Preparedness and Flood Prevention Bond Act of 2006 to assist in financing the San Ramon Canyon Stormwater Flood Reduction Project for the Stormwater Flood Management Program. The Grant is administered by the State Department of Water Resources. The maximum dollar amount of reimbursement offered through this State grant was set at \$9,464,727; the total cost of the work eligible for 50/50 cost sharing is \$18,929,455.”

To date, the City’s 50% share of the San Ramon Project has been appropriated and funded with the City’s Reserves. The immediate decision before the City Council is whether to issue debt to fund the City’s 50% share of the project, and reimburse the City’s Reserves. Any recommendations developed by the FAC will be forwarded to the City Council for its consideration of the matter, tentatively scheduled for March 18, 2014.

Deadline to Complete Financing of the San Ramon Project

The City Council adopted a reimbursement resolution on August 21, 2012 which allows the City to reimburse its Reserves (not to exceed \$12 Million) in the event the City Council decides to issue tax-exempt debt for the San Ramon project after construction begins. The resolution does not obligate the City to issue debt; but it does preserve the City’s ability to do so. Internal Revenue Service regulation 1.150-2 is the guidance referred to in the reimbursement resolution. In order to reimburse itself for the costs of the San Ramon project with proceeds of tax-exempt debt, the City must sell the bonds within 18

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months of the date that the City pays the first construction invoice (occurred on June 4, 2013). Tim Schaefer of Magis Advisors (the City's Financial Advisor), has advised the City that a City Council decision needs to be made by mid-March 2014 in order to complete the debt financing by December 2014.

Infrastructure Report Card and Infrastructure Management Plan

Prior to this meeting, the Finance Advisory Committee was provided with the City's Infrastructure Report Card and the PowerPoint presentations regarding the Report Card, the IMP process and financing considerations that were presented to the City Council on February 10, 2014; which can be found at the following link:

http://www.palosverdes.com/rpv/citycouncil/agendas/2014_Agendas/MeetingDate-2014-02-10/

An Infrastructure Report Card, or assessment of current condition, was the first step leading to development of an IMP. The Staff Report to the City Council, dated February 10, 2014, states:

"It is a snapshot in a moment of time: it does not evaluate community needs and priorities nor is it an in-depth assessment. It is a data driven, objective review of our public improvements that grades the existing state of the infrastructure in a city on an established scale from Exceptional ("A") to Failing ("F"). The grades are selected based on criterion developed by the American Society of Civil Engineers (ASCE) guidelines that have been consistently used for almost two decades."

The City's Infrastructure Report Card was developed by SA Associates, a team of independent licensed civil engineers specialized in each category of infrastructure that was graded. SA Associates has prepared a similar report card for both the City of Los Angeles and Los Angeles County. The report card format was based upon similar report cards prepared for the counties of Orange and San Diego.

The 2013 Infrastructure Report Card includes letter grades assigned to the overall condition of each segment of infrastructure, as follows:

Public Buildings	D
Park Sites	B
Trails	A
Storm Water System	C
Sanitary Sewer System	D
Abalone Cove Sanitary Sewer System	D
Right of Way/Traffic Control Devices	A
PVDS Landslide	D

The letter grades follow a traditional scale of: A=Exceptional, B=Good, C=Average, D=Poor, and F=Failing.

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On February 10, 2014, the City Council directed Staff to bring back the City's Report Card with the existing reports and data used in its preparation for the 8 different categories of infrastructure and present the information to the City Council by April 15th.

DISCUSSION

Report and Presentation by Magis Advisors

In addition to the information previously forwarded to the FAC and the information contained within this report, the City's Financial Advisor has prepared the attached report, titled "Debt Financing for the San Ramon Canyon Stabilization Project" (the "Report"), dated February 18, 2014, that provides the FAC and City Council with a summary of criteria for consideration regarding whether or not to issue debt to reimburse the City's Reserves. The City's Financial Advisor will deliver a presentation to the FAC regarding the funding of infrastructure and the potential tax-free debt-financing of the San Ramon project. Mr. Schaefer presented the following documents to the City Council on June 1, 2013 in preparation for its decision to finance the San Ramon project. The documents have been updated and are attached the Report.

Attachments:

- A. Checklist of Steps in a Debt Financing;
- B. Debt Illustration for General Obligation Bonds; and
- C. Debt Illustration for Certificates of Participation.

Mr. Schaefer's Report includes both factors favoring use of debt and not.

Summary of Existing Funding for Infrastructure

There are two costs associated with infrastructure: 1) maintenance; and 2) rehabilitation or replacement. The costs of maintenance, such as sealing cracks in a City parking lot, are not capitalized as they do not significantly extend the useful life of the infrastructure. Proper maintenance can postpone rehabilitation or replacement, but cannot eliminate it. This discussion focuses on the funding for rehabilitation or replacement.

Currently, the City has the following annual sources of revenue for infrastructure rehabilitation or replacement.

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Source	Restrictions	Annual Revenue Currently Available for All City Infrastructure (Millions)	Annual Revenue Available for Infrastructure Renewal after 2016 (Millions)
Proposition C Sales Tax	Restricted to arterial roadways.	\$ 0.60	
Measure R Sales Tax	Restricted to arterial roadways.	0.50	
Storm Drain User Fee	Restricted to storm drains. Sunsets in 2016.	1.30	
Various Grants & Other One-Time Revenues	Sources are restricted and vary from year to year. Examples include project-specific grants and Quimby Act Developer Fees.	1.00	
General Fund Unrestricted Revenue	Historical contribution to residential street rehabilitation.	1.60	1.60
General Fund Unrestricted Transient Occupancy Tax	Used for infrastructure projects per City Council Reserve Policy.	3.70	3.70
General Fund Expenditure Variance (historical average)	Used for infrastructure projects per City Council Reserve Policy.	0.90	0.90
Total		\$ 9.60	\$ 6.20

Staff offers the following observations regarding these sources of infrastructure funding.

- Proposition C sales tax is used solely for repaving Palos Verdes Drive South (PVDS) in the landslide area. The cost of maintaining PVDS in a drivable condition does not extend the useful life of the roadway; which must be rehabilitated nearly quarterly (four times per year).
- The Storm Drain User Fee sunsets in 2016. Unless a substitute fee is established by the property owners or voters, there will be no dedicated revenue source for storm drain renewal. Outside funding sources (e.g. grants and apportionments from other agencies) are not commonly available for storm drains. The City's Proposition 1E grant for the San Ramon project was unique in that it came from a state bond issue for stormwater projects amidst public reaction to the damage caused by Hurricane Katrina. Public Works Staff does not expect that the City will receive another grant opportunity such as this in the foreseeable future.
- Grants vary from year to year, and are typically restricted to a specific project. Usually that project involves *rehabilitating* infrastructure or installing "betterments" (e.g. park sites and open space). Examples of recent grant eligible/funded projects

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include improvements to Abalone Cove Shoreline Park, development of the California Coastal Trail, purchases of open space, synchronization of traffic signals on Hawthorne Boulevard, and improvements to pedestrian access along roadways. The use of Quimby Act and other development impact fees, received periodically from development of newly constructed buildings in the City, are restricted to fund new infrastructure such as new park facilities.

- Transient Occupancy Tax (TOT) is primarily received from Terranea Resort, which opened mid-2009. Based upon assertions from industry experts at public meetings, discussions with other government finance officers, and a widely documented and industry accepted “resort life cycle”; resorts appear to have a finite life cycle, and do not continue to generate local tax revenue indefinitely. Nor is their certainty that this source will grow at an even rate or sustainable rate.

Limitations of Funds Available

Although the sources of infrastructure funding identified above total about \$9.6 million annually; based upon the observations outlined above, we may decrease that total by the amounts used for PVDS in the landslide area and grants/developer fees to arrive at a subtotal of \$8.0 million per year to fund rehabilitation (extending the useful life) of *existing* infrastructure. Furthermore, we know that about \$1.3 million of that subtotal (the storm drain user fee) will no longer be available in the near-term, unless there is an initiative to renew the fee; and we may reasonably conclude that at least some of the TOT, \$3.4 million of that subtotal, may not be available in the long-term. Additionally, the City’s 2013 Five-Year Capital Improvement Plan includes residential and arterial roadway projects with estimated costs totaling \$27.9 million over the next five years (an average of \$5.6 million per year).

Spending Level for Infrastructure

As reported in the 2013 Five-Year Financial Model, we do not know the future cost of rehabilitating or replacing the City’s existing infrastructure. Unknown cost, combined with the need for a methodical long-term plan of infrastructure renewal, is why Staff proposes development of an IMP. If and until an IMP is developed, we can only estimate a theoretical replacement cost for infrastructure; such as the \$331 million estimate reported in the 2013 Five-Year Financial Model (for calculation, see Attachment D). Staff believes that an IMP can provide more accurate estimates of the City’s future infrastructure costs; which will enable better decision-making with regards to funding those costs with existing revenue sources, new revenues sources, or tax-free debt financing. However, development of an IMP is a substantial project that may take up to 2-3 years; with a commitment to perpetual updates thereafter.

If the estimated theoretical replacement cost for infrastructure is correct, spreading that cost over 30 years in nominal dollars results in an annual spending level of \$11 million to renew existing infrastructure (not providing for any enhancements). Spread the same amount over 50 years in nominal dollars, and the theoretical estimate results in an annual

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spending level of \$6.6 million. As outlined above, Staff is concerned that the City's available resources are insufficient to fund long-term needs.

Short-Term Decision Making

For purposes of this discussion, Staff considers "short-term" to be within the next 5 years. In the absence of an IMP, the best information we have to support short-term decision-making related to infrastructure funding is the Infrastructure Report Card. Staff suggests focusing on the lowest scoring categories: Public Buildings, Sanitary Sewer System (both Citywide and Abalone Cove), and PVDS Landslide.

Public Buildings

Within the Infrastructure Report Card exercise, the lowest scoring buildings were at the Civic Center (City Hall) complex and the Ladera Linda Community Center.

On September 2, 2008, the City Council adopted the RPV Coast Vision Plan following a significant public outreach effort. The Plan includes a phased master plan approach to developing the Upper Point Vicente property as a fully-functioning Civic Center with the following elements:

- Village Green
- City Hall with Council Chambers
- Community Center
- Cultural Center
- Shared Surface Parking
- Trail Heads to surrounding open space areas

On November 17, 2009, the City Council authorized the preparation of a formal Master Plan of the Civic Center and authorized staff to retain the services of several professional consultants to complete the baseline studies funded through the FY09-10 budget. As a part of the baseline study, Gonzalez/Goodale Architects issued a report in November 2010 that included an estimate of about \$8.6 Million to refurbish the Civic Center facilities to current building code standards and safety. At a Council meeting on June 29, 2010, the City's Financial Advisor presented financing option scenarios that included the complete reconstruction of the facility roughly estimated to be about \$22.1 Million. The City Council has not directed Staff to include either option in the budget or the Five-Year Capital Improvement Plan. If and when the City Council determines that a project should be pursued, it is likely that the City would be able to debt-finance construction if necessary.

On May 3, 2011, Staff reported to City Council that the Ladera Linda Community Center buildings has serious public safety maintenance deficiencies, including gas, water and wastewater lines that require replacement at a significant cost, and that the buildings are deteriorated to a point that would require replacement. A project to improve the Ladera

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Linda Community Center with an estimated cost of \$4 million was included in the FY17-18 column of the 2013 Five-Year Capital Improvement Plan approved by the City Council. If the City Council elects to appropriate the proposed project, it is likely that the City would be able to debt-finance construction if necessary.

Citywide Sanitary Sewer System

The Los Angeles County Public Works Sewer Maintenance collects a sewer fee from the City's property owners and maintains the City's sewer system. The county performs maintenance and repairs. However, if there is a capacity issue (e.g. a larger pipe is necessary), the City is responsible for making the improvement. The county developed a 10-year cycle of cleaning and filming sewer pipes within the district. In recent history, the City of RPV has been among the 5 cities in the district with the highest number of incidents of sewer overflow. At the request of the City, the county fast-tracked cleaning and filming of the City's sewer pipes to be completed within 5 years (as opposed to 10). After the 5-year effort is completed, Staff expects that the county will conduct no more cleaning and filming in the City for another five years, until the 10-year cycle begins again.

About 80% of the cleaning and filming has been completed in the City. As the pipes are cleaned and filmed, the County catalogs problems and places them into a queue for repair or schedules increased maintenance activities appropriate with the problem discovered. The District revenue is limited, so projects that are identified may not be completed for some time. Staff has recently been informed that District intends to issue a contract to install liners in several segments needing repairs. The contract is not available, however staff has requested a list of the future sewer segment lining and/or replacement projects from the District. In the event that a project is approved and constructed by the District it is likely that the performance of the system in the areas where liners were installed would improve.

The results of the county's findings so far have indicated that about 95% of the City's sewer system is working well. The California Water Resources Control Board has a zero tolerance policy for sewer overflows; and could elect to enforce established fines for each incident of overflow. However, significant concerns remain for a small portion of the City's sewer system. These concerns, and the state's zero tolerance policy are what contributed to the "D" grade issued to the citywide sewer system.

On November 17, 2009, Staff presented an update of the City's Sewer Master Plan to the City Council. The City Council took action to contract with Harris & Associates to develop funding options for sewer maintenance and capital improvements. Preliminary estimates of a potential citywide sewer user fee have been developed.

To date, when repairs become necessary before the county can respond, or if capacity improvements are necessary, the City has funded sewer projects with General Fund money. As cities retain the ability to impose sewer user fees under the California Health & Safety Code, restricted funding is typically unavailable for sewer systems. Low cost

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financing may be available through state programs; however, participation in these programs is typically competitive with assistance going primarily to disadvantaged communities. The City Council could elect to establish a citywide user fee for sewer refurbishment conducted by the City, and reduce reliance on unrestricted revenue for sewer infrastructure.

Abalone Cove Sewer System

The Abalone Cove sewer system was graded separately from the citywide system. As reported previously to the City Council, the user fee revenue of about \$54,000 and the City's \$50,700 annual subsidy appears to be insufficient for proper maintenance of the system. The City Council could elect to increase the Abalone Cove sewer user fee to provide additional funding for the system; however, the fee increase would be significant to users and would likely be extremely unpopular. The annual Abalone Cove Sewer District budget is used for current maintenance activities only. No improvements extending the useful life of the system have been made.

Landslide

The City's manages its active landslide area through a dewatering well program and regular repaving of PVDS to maintain its drivable condition. The City's efforts are supplemented by the Abalone Cove Landslide Abatement District and the Klondike Canyon Landslide Abatement District. These districts collect property assessments and maintain additional dewatering wells. It should be noted that the City is a significant property owner in these districts (primarily open space parcels), and the City's General Fund pays property assessments totaling about \$100,000 (or about 57% of the total assessments collected in these districts).

As noted above, the City uses its Proposition C revenue to pay for the constant repair and repaving of PVDS in the landslide area. The City has budgeted General Fund money for 2 additional dewatering wells; which cost about \$85,000 each. The City has planned for a project to relocate PVDS back into the City's right-of-way. A total of \$745,000 of General Fund money has been appropriated for this project in FY13-14; and the Five-Year Capital Improvement Plan includes a planned appropriation of \$3.5 million (using General Fund money) to be budgeted in FY14-15.

Although Staff and its grant consultants, Blaise & Associates, continues to search for all grant opportunities available, Staff is unaware of any outside funding available to manage the landslide. In the event of a significant incident, state or federal emergency money would only become available if either the governor or U.S. President declare a disaster. Considering the location and the impact of the landslide, Staff is not optimistic that such a disaster would be declared. Furthermore, Staff has been advised that debt-financing landslide repairs would be nearly impossible; and certainly not available after a significant damaging incident.

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The City's active landslide complex is a significant, known risk that has been considered in setting the thresholds for the City's Reserve Policy, which includes a rainy-day fund of 50% of annual General Fund expenditures, as well as a minimum \$3 million reserve for emergency capital projects. An incident caused by significant storm activity or earthquake would likely necessitate a large City expenditure for which there is not expected to be any restricted funding, debt-financing, or emergency money. The scope of such an expenditure has not been quantified; but would likely be very significant.

Summary of Several Important Considerations for Short-Term Decision Making

Staff offers the following summary of decisions that may be considered by the City Council over the next several years.

- Is the City willing to establish a citywide sewer user fee?
- Is the City willing to increase the Abalone Cove sewer user fee?
- Is the City willing to renew the storm drain user fee when it sunsets in 2016?
- Will the Council set the Altamira Canton storm drain project as its highest priority? If so, what will be its estimated multi-million dollar cost?
- Is the City willing to debt-finance a portion of the San Ramon project to reimburse its Reserves?
- Is the City willing to refurbish or replace some or all of the low-scoring public buildings? If so, is the City willing to debt-finance these projects?

If the answers to all or most of these questions are "No", it appears as though the City's resources would not be sufficient to provide for long-term renewal of the City's infrastructure.

Debt Policy

The Government Finance Officers Association (GFOA) recommends that state and local governments adopt comprehensive written debt management policies. These policies should reflect local, state, and federal laws and regulations. Several elements of a debt policy, as suggested by the GFOA could include:

- ❖ Purposes for which debt may be issued;
- ❖ Legal debt limitations, or limitations established by policy;
- ❖ Use of moral obligation pledges;
- ❖ Types of debt permitted to be issued and criteria for issuance;
- ❖ Structural features that may be considered;
- ❖ Credit objectives;
- ❖ Method of sale;
- ❖ Selection of external financial professionals;
- ❖ Refunding of debt;
- ❖ Disclosure (primary and secondary market);
- ❖ Compliance with federal tax law provisions, including arbitrage requirements;

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- ❖ Integration of capital planning and debt financing activities; and
- ❖ Investment of bond proceeds where otherwise not covered by explicit written law or written investment policy.

Even if the City Council decides not to debt-finance a portion of the San Ramon project, Staff proposes that the City Council adopt a formal debt policy to outline the parameters of when and how the City would consider the use of debt.

Attachments

Debt Financing for the San Ramon Canyon Stabilization Project", dated February 18, 2014

Checklist Of Steps In A Debt Financing

Depreciable Infrastructure Assets At June 30, 2012



MEMORANDUM

To: Kathryn Downs
Dennis McLean
City of Rancho Palos Verdes

From: Tim Schaefer
Magis Advisors

Date: February 18, 2014

Subject: Debt Financing for the San Ramon Canyon Stabilization Project

This memorandum is to update you on our recent activity on the above matter and to provide additional background material to the City's Finance Advisory Committee for its meeting of February 26, 2014. I will attend that meeting and be available to you and the Committee to discuss this material.

SUMMARY

Since we first engaged with you in this conversation, the City has taken several important steps to frame its decision. First, it has prepared an infrastructure "report card," which evaluates the condition of major components of the City's infrastructure. The City's staff has proposed the development of an infrastructure management plan, which would establish a long-term planning protocol for the replacement of infrastructure in a systematic way. We have strongly encouraged these steps because making a decision to borrow money is almost always better informed by reference to a policy and a plan than to the needs of a particular transaction. We have encouraged City staff to develop a basic debt policy to be used in conjunction with the infrastructure management plan.

Despite the significant progress, the City still lacks sufficient, actionable information to make an adequately-informed decision about incurring debt. This is a result of some of the unique factors at work in the City's situation. Principal among these factors are the source of ongoing funding for capital projects and the assurance being provided by the City's accumulated reserves.

Accordingly, we have not made a specific recommendation to the City to incur debt at this time. Instead, we encourage the Committee, City staff, and the City Council to proceed with the development of the infrastructure management plan and to consider the factors discussed herein as a "one-off" situation that may provide some economic benefit and restore the City's reserves until the infrastructure management plan is providing more specific information about future capital needs.

A borrowing of \$10.0 million undertaken today, should the City choose to do so, would entail an annual commitment of about \$600,000 to \$670,000 over a thirty-year period to replenish reserves drawn for the San Ramon project. Alternatively, a decision to not replenish those reserves would reduce the City's liquidity to a level that might be insufficient to meet a catastrophic failure of the Palos Verdes Drive South in the near-term. A decision to borrow is thus a "judgment call" for the City's policy-makers.

BACKGROUND

Governmental expenditures generally fall into two categories: (a) current expenditures (*i.e.*, those made for goods or services that will be used within the budget period, typically one year); and, (b) capital expenditures (*i.e.*, those made for fixed assets or improvements that will be used over multiple years). This discussion focuses on the latter category and discusses how those expenditures are both funded and financed. **Funding** and **financing** are not the same.

Capital expenditures are usually embodied in a “capital improvement program” (called a “CIP”) consisting of two discrete parts: a capital improvement plan; and, a capital improvement budget. An effective CIP provides an orderly and routine method of planning for the funding and financing of required capital expenditures over multiple planning periods. Rolling five-year periods are typical. The annual updating process used for the CIP would also likely include updating certain information in the infrastructure management program and vice-versa. Moreover, the combination of these factors would enable the City’s decision-makers a regular opportunity to alter priorities to respond to better information and changing needs.

An effective CIP promotes “long-term” thinking—a definite plus when contemplating debt. It is used to:

1. Adopt a method for ranking project priorities;
2. Encourage policy-driven choices for which proposed capital expenditures will be funded;
3. Allocate immediate and/or ongoing sources for those funding needs;
4. Indicate when financing the prioritized needs must be done.

Steps 3 & 4 are where debt decisions intersect with the CIP. The three choices are:

- ✓ Pay-as-you-go (“PAYGO”);
- ✓ Borrowed money (*i.e.*, bonds, sometimes called “pay-as-you-use”, or “PAYUSE”),
- ✓ A combination of the two—what most communities use.

A central part of the capital planning process is the identification of all available sources of funding for the project over its useful life. At the heart of the choice is a determination of *when* the funding will be available, *where* it will come from, and *how* certain it is to materialize in the amounts and at the times needed. Debt financing is used to align those factors (the “when,” “where,” and “how”) more efficiently. In general, there is no such thing as a “perfect” answer.

PAYGO is usually the least expensive (in nominal terms) and simplest way of funding capital improvements; but, it also subject to some significant limitations. PAYGO is usually reserved for those projects that are smaller in scale and/or have short useful or economic lives (*think “police cars and copiers”*).

When PAYGO is used for major projects, it generally assumes that one or more of the following conditions is true:

- ✓ The City's existing financial resources are adequate to fund both its capital needs and its ongoing operating expenses for the foreseeable future; and/or
- ✓ There is sufficient (and readily available), uncommitted fund balance or reserves to handle foreseeable capital needs, **plus** sufficient other resources for unforeseen emergencies; and/or,
- ✓ The cost of the capital assets is not rising faster than the earnings rate available on the accumulated funds needed to pay for it; and/or,
- ✓ Already-established expenditure priorities within the CIP can (and should) be changed to provide resources to the project under consideration (*i.e.*, other, competing projects have a discretionary timing feature to them that makes them susceptible to change).

"One-time" revenues or reserves accumulated in fund balance (provided those excess fund balances are uncommitted and liquid) are ideal sources of PAYGO financing. This is often the "best" approach for a new or growing community. Older, mature communities usually have fewer options because they often are dealing with significant amounts of deferred maintenance and the replacement of fixed assets that have projected costs significantly higher than their historical cost. This appears to be the case with the City. Moreover, once spent, financial resources used for PAYGO capital assets convert cash into illiquid, fixed assets. That's because PAYGO "misallocates" the costs of major capital facilities that have very long useful lives because it calls on current taxpayers to pay the full cost of major capital projects, "up front;" and, those illiquid assets cannot be easily "reconverted" to cash if cash is needed for other purposes, including emergencies. Using PAYGO exclusively also results in "opportunity costs," when resources that could be used in other ways are used to finance capital assets. The alternative to PAYGO is debt, or PAYUSE.

PAYUSE is a financing method, not a funding strategy. Instead of funding the project from revenues, it is funded initially from the proceeds of debt; and then, the ongoing funding over time is used to repay the debt. PAYUSE is also an effective way to align the timing and amounts of financial resources (needed for the required assets) to the benefits the assets will deliver to the community. The "fancy" phrase for this is "intergenerational equity," but it is really a simple concept. PAYUSE (debt) is a way of distributing the burden of paying for an asset (over time) to the stakeholders who will benefit (over time) from its acquisition.

So, communities will "lean" more toward PAYUSE when:

1. The asset being acquired has a long useful and economic life and "fairness" demands that the cost of the asset should be economically apportioned among both current and future users; or,
2. There is significant deferred maintenance that has not been provided for in the past; or,
3. The availability of significant, incremental revenues for the replacement of capital assets is limited or restricted; or,
4. The expected rate of cost inflation for the acquired asset being considered is likely to be greater than the borrowing rate; or,

5. Earnings rates on reserves or liquid assets are low and are reasonably expected to stay that way for the near term; or,

6. Borrowing rates compare favorably to inflation and investment earnings.

Note: The tax exemption available to local governments often produces better economics from the PAYUSE because of the built-in subsidy; the Federal government is essentially subsidizing the municipality's borrowing costs.

Similarly, communities will "lean" more toward PAYGO when the opposite conditions are present. The point is that the choices are made along a continuum and rarely follow a rigid adherence to one or the other. Choosing between debt, or paying cash, shouldn't be thought of as "bad" or "good," but rather as a response to a particular need to align sources of funding over time with the benefits being provided by the community's fixed assets.

In order to evaluate the use of debt to finance the San Ramon Canyon Stabilization Project, the City must consider its overall budget and fiscal position over a time period longer than a normal budget cycle. The City's budget practices generally have been that:

1. Operating revenues fully cover operating expenses, including debt service;
2. Established reserves meet minimum policy levels; and,
3. "One-time" revenues are used to fund nonrecurring expenditures.

The City has never incurred debt on its own. Instead, it has relied on "own source" revenues and/or grants and contributions from other governments to finance its capital needs. Debt should not be considered appropriate for any recurring use such as operating or maintenance costs. Capital improvements should be financed primarily through user fees, service charges, assessments, special taxes or developer exactions so long as the benefits the City will derive from such improvements can be attributed to the users of the improvements. The City should specifically consider the costs associated with any borrowing in order to determine that the above funding sources are adequate to service the proposed debt.

The City should evaluate the use of debt in-lieu of "pay-as-you-go" financing for the San Ramon project on the basis of the following criteria:

Factors Favoring Use of PAYGO:

1. Current fund balances or projected (and available) revenues are believed to be adequate to fund the City's capital projects over the long-term;
2. Existing or proposed debt levels would have a deleterious effect on the City's ability to borrow for more critical projects in the future;
3. Credit market conditions are unstable or present extraordinary difficulty in marketing the required debt;
4. Borrowing money would lack political support in the community.

Factors Favoring Use of Debt:

1. Revenues are deemed to be stable and reliable enough to support the proposed debt at investment grade rating levels;
2. The nature of the project and its associated funding resources will support investment grade ratings;
3. Credit market conditions present favorable interest rates and demand for securities such as those issued by the City;
4. The project being financed is required to meet or relieve public safety needs
5. Other emerging projects (such as the unfunded Altamira Canyon project) are likely to compete for funding in the immediate future;
6. The probability of a catastrophic loss of Palos Verdes Drive South remains unknown and the cost of replacing the roadway is unmeasured or uncertain;
7. The escalation of replacement costs is at or above the projected borrowing rate; and
8. The estimated useful life of the asset to be financed is greater than 5 years.

RECOMMENDATION

Accordingly, we believe that there is insufficient data to make a persuasive argument for incurring debt. However, by contrast, we also observe that a major drawdown of the City's reserves to pay for San Ramon presents significant concerns. In short, this must be a judgment call by the City's policy-makers.

Since the major source of revenue for replenishment of the City's reserves is the transient occupancy tax, and the base on which that tax is collected is a single facility, we remain concerned that this source of funding is vulnerable to changes in consumer behavior and to future, adverse changes in the economic environment.

Additionally, the City's infrastructure is always at risk of loss due to catastrophic events (e.g. unexpected failure, deterioration, earthquake and/or landslide). To be clear, one of the "cliff risks" that concerns us is the uninsured, unfunded replacement or repair of Palos Verdes Drive South. A catastrophic loss of PVDS at an inopportune time could affect the revenue stream the City is relying upon to fund capital reserves. In effect, the City's reserves—at the current or higher level—are providing protection against an uninsured, non-reimbursable loss of this vital artery. Drawing the reserves down to a level less than the replacement cost of this roadway would increase the City's dependence on emergency or disaster funds from the State or Federal government. We observe that the availability of these funds has been impaired in the recent past due to fiscal difficulties or dysfunctional politics. In just one example, the Federal government's emergency funds to assist the State of New Jersey with recovery from Hurricane Sandy were delayed because of the debate over the nation's debt ceiling. The State has demonstrated in the recent past that it is not always able to make funds available because of its own weakened cash position.

Should a combination of such adverse events occur at the time the City needs to borrow funds, it would likely either prohibit the borrowing or produce much less favorable terms. By contrast, today's borrowing could be accomplished at near (or below) the historical rate of inflation applicable to many construction projects equivalent to the San Ramon project. We have drawn that conclusion by observing that the Engineering News Record's "Construction Cost Index" (a widely used benchmark in the engineering and public works' community) has changed by an average annual rate of 4.88% since 1963—a rate that is almost 0.75% higher than the equivalent average annual change in the Consumer Price Index.

Therefore, assuming that the historical data are accurate predictors of the future, the City could borrow funds to replenish its reserves that were used on the San Ramon Canyon project at a "net" rate of less than zero. This phenomenon is a result of comparing the estimated borrowing rate of 4.2% to 4.83% to the long term average change in the ENR described above of 4.88%.

We are pleased to be of continuing service to the City.

MAGIS ADVISORS



Timothy J. Schaefer
Principal Owner/President

Attachments: Debt Illustrations for the San Ramon Canyon Stabilization Project

\$10,000,000 CITY OF RANCHO PALOS VERDES
General Obligation Bonds
San Ramon Cyn Stabilization Project
ILLUSTRATION as of 2/17/14

Sources & Uses

Dated 07/01/2014 | Delivered 07/01/2014

Sources Of Funds

Par Amount of Bonds	\$10,000,000.00
Reoffering Premium	238,142.25
Total Sources	\$10,238,142.25

Uses Of Funds

Total Underwriter's Discount (1.000%)	100,000.00
Costs of Issuance	145,000.00
Deposit to Project Construction Fund	9,988,852.27
Rounding Amount	4,289.98
Total Uses	\$10,238,142.25

\$10,000,000 CITY OF RANCHO PALOS VERDES
 General Obligation Bonds
 San Ramon Cyn Stabilization Project
 ILLUSTRATION as of 2/17/14

Pricing Summary

Maturity	Type of Bond	Coupon	Yield	Maturity Value	Price	Dollar Price
07/01/2015	Serial Coupon	5.000%	0.300%	170,000.00	104.689%	177,971.30
07/01/2016	Serial Coupon	5.000%	0.400%	175,000.00	109.154%	191,019.50
07/01/2017	Serial Coupon	5.000%	0.700%	185,000.00	112.743%	208,574.55
07/01/2018	Serial Coupon	5.000%	1.000%	195,000.00	115.645%	225,507.75
07/01/2019	Serial Coupon	5.000%	1.400%	205,000.00	117.325%	240,516.25
07/01/2020	Serial Coupon	5.000%	1.900%	215,000.00	117.500%	252,625.00
07/01/2021	Serial Coupon	5.000%	2.300%	225,000.00	117.365%	264,071.25
07/01/2022	Serial Coupon	5.000%	2.600%	235,000.00	117.234%	275,499.90
07/01/2023	Serial Coupon	4.500%	2.900%	250,000.00	112.594%	281,485.00
07/01/2024	Serial Coupon	3.100%	3.100%	260,000.00	100.000%	260,000.00
07/01/2025	Serial Coupon	3.200%	3.200%	265,000.00	100.000%	265,000.00
07/01/2026	Serial Coupon	3.400%	3.400%	275,000.00	100.000%	275,000.00
07/01/2027	Serial Coupon	3.500%	3.500%	285,000.00	100.000%	285,000.00
07/01/2028	Serial Coupon	3.600%	3.600%	295,000.00	100.000%	295,000.00
07/01/2029	Serial Coupon	3.800%	3.800%	305,000.00	100.000%	305,000.00
07/01/2030	Serial Coupon	3.900%	3.900%	315,000.00	100.000%	315,000.00
07/01/2031	Serial Coupon	4.000%	4.000%	330,000.00	100.000%	330,000.00
07/01/2032	Serial Coupon	4.100%	4.100%	345,000.00	100.000%	345,000.00
07/01/2033	Serial Coupon	4.200%	4.200%	355,000.00	100.000%	355,000.00
07/01/2034	Serial Coupon	4.200%	4.200%	370,000.00	100.000%	370,000.00
07/01/2035	Serial Coupon	4.250%	4.300%	390,000.00	99.313%	387,320.70
07/01/2036	Serial Coupon	4.250%	4.300%	405,000.00	99.293%	402,136.65
07/01/2037	Serial Coupon	4.375%	4.400%	420,000.00	99.640%	418,488.00
07/01/2038	Serial Coupon	4.375%	4.400%	440,000.00	99.631%	438,376.40
07/01/2044	Term 1 Coupon	4.625%	4.656%	3,090,000.00	99.500%	3,074,550.00
Total	-	-	-	\$10,000,000.00	-	\$10,238,142.25

Bid Information

Par Amount of Bonds	\$10,000,000.00
Reoffering Premium or (Discount)	238,142.25
Gross Production	\$10,238,142.25
Total Underwriter's Discount (1.000%)	\$(100,000.00)
Bid (101.381%)	10,138,142.25
Total Purchase Price	\$10,138,142.25
Bond Year Dollars	\$184,805.00
Average Life	18.481 Years
Average Coupon	4.3562918%
Net Interest Cost (NIC)	4.2815415%
True Interest Cost (TIC)	4.2165826%

\$10,000,000 CITY OF RANCHO PALOS VERDES

General Obligation Bonds

San Ramon Cyn Stabilization Project

ILLUSTRATION as of 2/17/14

Debt Service Schedule

Part 1 of 2

Date	Principal	Coupon	Interest	Total P+I
07/01/2014	-	-	-	-
07/01/2015	170,000.00	5.000%	433,980.00	603,980.00
07/01/2016	175,000.00	5.000%	425,480.00	600,480.00
07/01/2017	185,000.00	5.000%	416,730.00	601,730.00
07/01/2018	195,000.00	5.000%	407,480.00	602,480.00
07/01/2019	205,000.00	5.000%	397,730.00	602,730.00
07/01/2020	215,000.00	5.000%	387,480.00	602,480.00
07/01/2021	225,000.00	5.000%	376,730.00	601,730.00
07/01/2022	235,000.00	5.000%	365,480.00	600,480.00
07/01/2023	250,000.00	4.500%	353,730.00	603,730.00
07/01/2024	260,000.00	3.100%	342,480.00	602,480.00
07/01/2025	265,000.00	3.200%	334,420.00	599,420.00
07/01/2026	275,000.00	3.400%	325,940.00	600,940.00
07/01/2027	285,000.00	3.500%	316,590.00	601,590.00
07/01/2028	295,000.00	3.600%	306,615.00	601,615.00
07/01/2029	305,000.00	3.800%	295,995.00	600,995.00
07/01/2030	315,000.00	3.900%	284,405.00	599,405.00
07/01/2031	330,000.00	4.000%	272,120.00	602,120.00
07/01/2032	345,000.00	4.100%	258,920.00	603,920.00
07/01/2033	355,000.00	4.200%	244,775.00	599,775.00
07/01/2034	370,000.00	4.200%	229,865.00	599,865.00
07/01/2035	390,000.00	4.250%	214,325.00	604,325.00
07/01/2036	405,000.00	4.250%	197,750.00	602,750.00
07/01/2037	420,000.00	4.375%	180,537.50	600,537.50
07/01/2038	440,000.00	4.375%	162,162.50	602,162.50
07/01/2039	460,000.00	4.625%	142,912.50	602,912.50
07/01/2040	480,000.00	4.625%	121,637.50	601,637.50
07/01/2041	500,000.00	4.625%	99,437.50	599,437.50
07/01/2042	525,000.00	4.625%	76,312.50	601,312.50
07/01/2043	550,000.00	4.625%	52,031.26	602,031.26
07/01/2044	575,000.00	4.625%	26,593.76	601,593.76
Total	\$10,000,000.00	-	\$8,050,645.02	\$18,050,645.02

\$10,000,000 CITY OF RANCHO PALOS VERDES
General Obligation Bonds
San Ramon Cyn Stabilization Project
ILLUSTRATION as of 2/17/14

Debt Service Schedule

Part 2 of 2

Yield Statistics

Bond Year Dollars	\$184,805.00
Average Life	18.481 Years
Average Coupon	4.3562918%
Net Interest Cost (NIC)	4.2815415%
True Interest Cost (TIC)	4.2165826%
Bond Yield for Arbitrage Purposes	4.1353278%
All Inclusive Cost (AIC)	4.3365677%

IRS Form 8038

Net Interest Cost	4.2070093%
Weighted Average Maturity	18.138 Years

\$10,370,000 CITY OF RANCHO PALOS VERDES
Certificates of Participation
San Ramon Cyn Stabilization Project
ILLUSTRATION as of 2/17/14

Sources & Uses

Dated 07/01/2014 | Delivered 07/01/2014

Sources Of Funds

Par Amount of Bonds	\$10,370,000.00
Reoffering Premium	244,674.30
Total Sources	\$10,614,674.30

Uses Of Funds

Total Underwriter's Discount (1.400%)	145,180.00
Costs of Issuance	160,000.00
Deposit to Debt Service Reserve Fund (DSRF)	319,285.90
Deposit to Project Construction Fund	9,988,890.00
Rounding Amount	1,318.40
Total Uses	\$10,614,674.30

\$10,370,000 CITY OF RANCHO PALOS VERDES
 Certificates of Participation
 San Ramon Cyn Stabilization Project
 ILLUSTRATION as of 2/17/14

Pricing Summary

Maturity	Type of Bond	Coupon	Yield	Maturity Value	Price	Dollar Price
07/01/2015	Serial Coupon	5.500%	0.400%	155,000.00	105.084%	162,880.20
07/01/2016	Serial Coupon	5.500%	0.600%	165,000.00	109.726%	181,047.90
07/01/2017	Serial Coupon	5.500%	0.900%	175,000.00	113.585%	198,773.75
07/01/2018	Serial Coupon	5.500%	1.400%	185,000.00	115.895%	214,405.75
07/01/2019	Serial Coupon	5.500%	1.800%	195,000.00	117.616%	229,351.20
07/01/2020	Serial Coupon	5.500%	2.400%	205,000.00	117.226%	240,313.30
07/01/2021	Serial Coupon	5.500%	2.800%	215,000.00	117.055%	251,668.25
07/01/2022	Serial Coupon	5.500%	3.200%	230,000.00	116.120%	267,076.00
07/01/2023	Serial Coupon	5.500%	3.500%	240,000.00	115.326%	276,782.40
07/01/2024	Serial Coupon	5.125%	3.600%	255,000.00	112.711%	287,413.05
07/01/2025	Serial Coupon	3.800%	3.800%	265,000.00	100.000%	265,000.00
07/01/2026	Serial Coupon	4.000%	4.000%	275,000.00	100.000%	275,000.00
07/01/2027	Serial Coupon	4.000%	4.100%	285,000.00	99.000%	282,150.00
07/01/2028	Serial Coupon	4.200%	4.200%	300,000.00	100.000%	300,000.00
07/01/2029	Serial Coupon	4.400%	4.400%	310,000.00	100.000%	310,000.00
07/01/2030	Serial Coupon	4.500%	4.500%	325,000.00	100.000%	325,000.00
07/01/2031	Serial Coupon	4.600%	4.600%	340,000.00	100.000%	340,000.00
07/01/2032	Serial Coupon	4.700%	4.700%	355,000.00	100.000%	355,000.00
07/01/2033	Serial Coupon	4.700%	4.700%	370,000.00	100.000%	370,000.00
07/01/2034	Serial Coupon	4.800%	4.800%	390,000.00	100.000%	390,000.00
07/01/2035	Serial Coupon	4.900%	4.900%	410,000.00	100.000%	410,000.00
07/01/2036	Serial Coupon	4.900%	4.900%	430,000.00	100.000%	430,000.00
07/01/2037	Serial Coupon	5.000%	5.000%	450,000.00	100.000%	450,000.00
07/01/2038	Serial Coupon	5.000%	5.000%	470,000.00	100.000%	470,000.00
07/01/2044	Term 1 Coupon	5.125%	5.208%	3,375,000.00	98.750%	3,332,812.50
Total	-	-	-	\$10,370,000.00	-	\$10,614,674.30

Bid Information

Par Amount of Bonds	\$10,370,000.00
Reoffering Premium or (Discount)	244,674.30
Gross Production	\$10,614,674.30
Total Underwriter's Discount (1.400%)	\$(145,180.00)
Bid (100.959%)	10,469,494.30
Total Purchase Price	\$10,469,494.30
Bond Year Dollars	\$195,985.00
Average Life	18.899 Years
Average Coupon	4.9375151%
Net Interest Cost (NIC)	4.8867488%
True Interest Cost (TIC)	4.8361343%

\$10,370,000 CITY OF RANCHO PALOS VERDES

Certificates of Participation

San Ramon Cyn Stabilization Project

ILLUSTRATION as of 2/17/14

Debt Service Schedule

Part 1 of 2

Date	Principal	Coupon	Interest	Total P+I
07/01/2014	-	-	-	-
07/01/2015	155,000.00	5.500%	512,042.50	667,042.50
07/01/2016	165,000.00	5.500%	503,517.50	668,517.50
07/01/2017	175,000.00	5.500%	494,442.50	669,442.50
07/01/2018	185,000.00	5.500%	484,817.50	669,817.50
07/01/2019	195,000.00	5.500%	474,642.50	669,642.50
07/01/2020	205,000.00	5.500%	463,917.50	668,917.50
07/01/2021	215,000.00	5.500%	452,642.50	667,642.50
07/01/2022	230,000.00	5.500%	440,817.50	670,817.50
07/01/2023	240,000.00	5.500%	428,167.50	668,167.50
07/01/2024	255,000.00	5.125%	414,967.50	669,967.50
07/01/2025	265,000.00	3.800%	401,898.76	666,898.76
07/01/2026	275,000.00	4.000%	391,828.76	666,828.76
07/01/2027	285,000.00	4.000%	380,828.76	665,828.76
07/01/2028	300,000.00	4.200%	369,428.76	669,428.76
07/01/2029	310,000.00	4.400%	356,828.76	666,828.76
07/01/2030	325,000.00	4.500%	343,188.76	668,188.76
07/01/2031	340,000.00	4.600%	328,563.76	668,563.76
07/01/2032	355,000.00	4.700%	312,923.76	667,923.76
07/01/2033	370,000.00	4.700%	296,238.76	666,238.76
07/01/2034	390,000.00	4.800%	278,848.76	668,848.76
07/01/2035	410,000.00	4.900%	260,128.76	670,128.76
07/01/2036	430,000.00	4.900%	240,038.76	670,038.76
07/01/2037	450,000.00	5.000%	218,968.76	668,968.76
07/01/2038	470,000.00	5.000%	196,468.76	666,468.76
07/01/2039	495,000.00	5.125%	172,968.76	667,968.76
07/01/2040	520,000.00	5.125%	147,600.00	667,600.00
07/01/2041	545,000.00	5.125%	120,950.00	665,950.00
07/01/2042	575,000.00	5.125%	93,018.76	668,018.76
07/01/2043	605,000.00	5.125%	63,550.00	668,550.00
07/01/2044	635,000.00	5.125%	32,543.76	667,543.76
Total	\$10,370,000.00	-	\$9,676,788.92	\$20,046,788.92

\$10,370,000 CITY OF RANCHO PALOS VERDES
Certificates of Participation
San Ramon Cyn Stabilization Project
ILLUSTRATION as of 2/17/14

Debt Service Schedule

Part 2 of 2

Yield Statistics

Bond Year Dollars	\$195,985.00
Average Life	18.899 Years
Average Coupon	4.9375151%
Net Interest Cost (NIC)	4.8867488%
True Interest Cost (TIC)	4.8361343%
Bond Yield for Arbitrage Purposes	4.7177624%
All Inclusive Cost (AIC)	4.9695299%

IRS Form 8038

Net Interest Cost	4.7975521%
Weighted Average Maturity	18.522 Years

Years	Annual Debt Service		Annual Debt Service		Annual Difference	
	GO May '13	COP May '13	GO Feb '14	COP Feb '14	GO Change	COP Change
1	\$ 525,288.76	\$ 581,318.76	\$ 603,980.00	\$ 667,042.50	\$ 78,691.24	\$ 85,723.74
2	523,113.76	583,718.76	600,480.00	668,517.50	77,366.24	84,798.74
3	525,763.76	585,718.76	601,730.00	669,442.50	75,966.24	83,723.74
4	523,063.76	582,318.76	602,480.00	669,817.50	79,416.24	87,498.74
5	525,188.76	583,718.76	602,730.00	669,642.50	77,541.24	85,923.74
6	521,963.76	584,718.76	602,480.00	668,917.50	80,516.24	84,198.74
7	523,563.76	585,318.76	601,730.00	667,642.50	78,166.24	82,323.74
8	524,813.76	585,518.76	600,480.00	670,817.50	75,666.24	85,298.74
9	520,713.76	585,318.76	603,730.00	668,167.50	83,016.24	82,848.74
10	521,438.76	584,718.76	602,480.00	669,967.50	81,041.24	85,248.74
11	521,813.76	583,718.76	599,420.00	666,898.76	77,606.24	83,180.00
12	525,258.76	583,743.76	600,940.00	666,828.76	75,681.24	83,085.00
13	523,178.76	584,893.76	601,590.00	665,828.76	78,411.24	80,935.00
14	525,378.76	585,438.76	601,615.00	669,428.76	76,236.24	83,990.00
15	522,008.76	585,358.76	600,995.00	666,828.76	78,986.24	81,470.00
16	523,188.76	584,633.76	599,405.00	668,188.76	76,216.24	83,555.00
17	523,763.76	583,243.76	602,120.00	668,563.76	78,356.24	85,320.00
18	523,713.76	581,168.76	603,920.00	667,923.76	80,206.24	86,755.00
19	523,363.76	583,743.76	599,775.00	666,238.76	76,411.24	82,495.00
20	522,358.76	585,423.76	599,865.00	668,848.76	77,506.24	83,425.00
21	521,043.76	581,178.76	604,325.00	670,128.76	83,281.24	88,950.00
22	524,043.76	581,563.76	602,750.00	670,038.76	78,706.24	88,475.00
23	521,563.76	585,983.76	600,537.50	668,968.76	78,973.74	82,985.00
24	523,363.76	584,643.76	602,162.50	666,468.76	78,798.74	81,825.00
25	524,668.76	582,400.00	602,912.50	667,968.76	78,243.74	85,568.76
26	525,156.26	584,000.00	601,637.50	667,600.00	76,481.24	83,600.00
27	525,137.50	584,800.00	599,437.50	665,950.00	74,300.00	81,150.00
28	524,612.50	584,800.00	601,312.50	668,018.76	76,700.00	83,218.76
29	523,581.26	584,000.00	602,031.26	668,550.00	78,450.00	84,550.00
30	522,043.76	582,400.00	601,593.76	667,543.76	79,550.00	85,143.76
	<u>\$ 15,704,155.28</u>	<u>\$ 17,519,525.24</u>	<u>\$ 18,050,645.02</u>	<u>\$ 20,046,788.92</u>	<u>\$ 2,346,489.74</u>	<u>\$ 2,527,263.68</u>

Average: \$ 78,216.32 \$ 84,242.12

CHECKLIST OF STEPS IN A DEBT FINANCING

INTRODUCTION & OVERVIEW

This describes the steps, along with their timeframes and responsibilities, which may be used as a general guideline when undertaking a debt financing for a public agency. The information presented here is aimed at issuers who are smaller, access the market infrequently, or are new to the process. ***The checklist is adapted from the California Debt Issuance Primer, and has been updated to reflect prevailing market customs and practices as of January 2011. As a result, it may differ in significant ways from the Primer, as the Primer was last updated in 2005.***

The legally required procedural steps vary widely among the different types of public debt financing. For example, some types of debt require voter approval; some require approval by ordinance subject to referendum; while others may be approved by simple resolution of the governing body of the issuer. Some types of debt require action by official bodies other than the issuer and others need only be approved by the issuer. Nevertheless, much of this process is common to virtually all types of public debt.

Broadly speaking, the issuer must undertake the following steps to issue debt:

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|---|--|
| <ul style="list-style-type: none">A. Determine that the project or program to be financed is necessary or desirableB. Select the financing teamC. Structure the financing, meaning designing the repayment terms and patterns | <ul style="list-style-type: none">D. Obtain formal approval by the legislative or governing body of the issuerE. Market the issue to investors, then close the issue by exchanging bonds for the borrowed funds |
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The issuer also must live with the issue after the closing. The post-closing issuer responsibilities include:

- | | |
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| <ul style="list-style-type: none">F. Making ongoing disclosure of financial and operating dataG. Responding to investor inquiriesH. Calculating and filing tax returns required by federal tax lawI. Administering taxes, revenues, or assessments securing the issue | <ul style="list-style-type: none">J. Complete any construction or acquisition programs funded from the issueK. Complying with ongoing covenants, including insurance, investment of funds, or repayment provisions |
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CHECKLIST OF STEPS IN A DEBT FINANCING

1. Establish a process to deal with required amendments or refinancing opportunities

These steps are not independent and are not entirely sequential. For example, the legal and financial feasibility of a particular method of securing the bond issue under a proposed financing structure may determine whether the proposed project is feasible, and, therefore, whether the project and financing will be undertaken. The possibility of political controversy or legal action also may play into the feasibility analysis. As a result, a preliminary analysis of the feasibility of each step may be necessary prior to undertaking any of the steps in the proposed financing, and that preliminary analysis may involve informal consultation with experts prior to selection of the project team.

Because of the variables which may be present in different financings, the reader should be aware that steps may be accomplished in a different order and, in some cases the time required may be more or less than indicated.

The chronology outlined is broadly applicable to financings that are public offerings (not private placements) of debt being issued to finance a governmental project. Although the process for a private placement or for private activity financings is similar, this discussion does not cover steps that may be unique to those types of financings.

The description of each step indicates the members of the team commonly responsible for completing the step. Those members are commonly the following (in usual order of engagement, and as applicable):

- | | |
|------------------------------|--------------------------|
| 1. Issuer | 2. Bond Counsel |
| 3. Financial Advisor | 4. Underwriter |
| 5. Feasibility Consultant(s) | 6. Underwriter's Counsel |
| 7. Disclosure Counsel | 8. Investment Advisor |
| 9. Rebate Consultant | 10. Trustee/Fiscal Agent |

The team members that actually perform the steps in any given financing may also vary. For example, if the debt is to be sold at negotiated sale and no financial advisor is engaged by the issuer, the tasks indicated as being performed by the financial advisor will generally be performed by the underwriter. Conversely, in a competitive sale, the tasks performed by the underwriter (except for the actual purchase and distribution of the bonds) will normally be performed by the financial advisor. Also, if disclosure counsel is employed, they may perform many or all of the tasks indicated as being performed by underwriter's counsel.

CHECKLIST OF STEPS IN A DEBT FINANCING

STEP 1: DETERMINATION THAT A PROJECT (OR PROGRAM) TO BE FINANCED IS NECESSARY OR DESIRABLE

(TIME: ONE WEEK TO THREE YEARS)

This initial step in the financing process is potentially the most time-consuming because this when many basic business decisions regarding the project—its scope, cost, and the approach to financing—are made. Issuers should carefully consider their own policies and long-range objectives at this early stage, so that during the actual process of preparing, selling, and closing the issue, these policy decisions are firmly in place.

It may be appropriate for the issuer to inquire of other agencies that have financed similar projects to get ideas and obtain the benefit of their experience. Similarly, this is the time at which any constituent input—for example, citizen’s advisory committees or neighborhood groups—should be consulted to help shape the decisions being made.

Although these activities are listed before Step 2, SELECTION OF THE FINANCING TEAM, it may be necessary or desirable to identify and retain bond counsel, a financial advisor, and/or underwriter to assist with this first step as these team members may be useful in accomplishing the tasks identified below.

DEFINING THE BASIC NATURE AND SCOPE OF THE FINANCING REQUIREMENT

<i>What?</i>	<i>Who?</i>
<input type="checkbox"/> Technological feasibility	Issuer
<input type="checkbox"/> Financing feasibility	Issuer, financial advisor, underwriter
<input type="checkbox"/> Statutory authorization	Bond counsel
<input type="checkbox"/> Size of debt issue required	Financial advisor, underwriter, issuer
<input type="checkbox"/> Available resources for repayment	Issuer, financial advisor, underwriter, bond counsel
<input type="checkbox"/> Feasibility review of project/program	Issuer, financial advisor, underwriter
<input type="checkbox"/> Need for external credit support	Issuer, financial advisor, underwriter
<input type="checkbox"/> Other required approvals (<i>e.g.</i> , permits)	Bond counsel
<input type="checkbox"/> Political environment	Issuer, bond counsel, financial advisor, underwriter

CHECKLIST OF STEPS IN A DEBT FINANCING

STEP 2: SELECTION OF THE FINANCING TEAM

(TIME: ONE WEEK TO THREE MONTHS)

The second step in the financing process is critical to the ultimate success of the project and should be undertaken carefully. At this stage (unless previously done as discussed above), the issuer should decide whether to hire a financial advisor (whether or not a negotiated sale is expected) or rely on an underwriter to help with the initial structuring of the issue, which may depend upon the decision to sell the bonds through a competitive or negotiated sale.

In some cases, issuers who have worked with a particular underwriter on prior projects may work with that underwriter at the earliest stages in shaping the transaction. Similarly, a financial advisor is often called upon very early in the process to help anticipate the financing options available.

It also may be advantageous to consult with bond counsel early on in the process to determine the legal avenues available for the project and the financing.

DETERMINATION OF THE POSITIONS TO BE FILLED (BY THE ISSUER)

- | | |
|---|--|
| <p>1. Will a financial advisor or underwriter be initially retained to assist in structuring the issue? (Issuer)</p> <p>2. Is the debt to be sold at competitive or negotiated sale? (Issuer, financial advisor, bond counsel)</p> <p>3. If negotiated, will the separate advice of a financial advisor be necessary or desirable? (Issuer)</p> <p>4. If negotiated, should a single underwriter be selected or a team of managing underwriters? (Issuer, financial advisor)</p> <p>5. Will the issuer hire a separate disclosure counsel? (Issuer)</p> | <p>6. Is there a need for varying types of banking expertise? (Issuer, financial advisor)</p> <p>7. Will a feasibility consultant be necessary to demonstrate the financeability of the project or program? (Issuer, underwriter, financial advisor)</p> <p>8. If an interest rate swap is used, will a Swap Advisor be utilized? (Issuer, financial advisor, underwriter)</p> <p>9. Will special tax counsel be necessary or desirable? (Issuer, underwriter, bond counsel)</p> <p>10. Will a credit enhancement provider be necessary? (Issuer, financial advisor, underwriter)</p> |
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CHECKLIST OF STEPS IN A DEBT FINANCING

11. Will a trustee, fiscal agent or paying agent be used? (**Issuer, bond counsel, financial advisor**)
12. Procedural alternatives for selecting each position on the financing team (**Issuer**)
13. Does a statute or local ordinance require competitive selection? (**bond counsel**)
14. Reliance upon previously established relationships (**Issuer**)
15. Use of a request for proposals (**Issuer, financial advisor, bond counsel**)
16. Competitive sale of bonds? (for selecting **underwriter**)
17. Continuing disclosure (**Issuer, bond counsel, disclosure counsel**)
18. Ongoing administration (**Issuer, bond counsel, others**)
19. Arbitrage rebate compliance services (**Issuer, others**)

CHECKLIST OF STEPS IN A DEBT FINANCING

STEP 3: STRUCTURING THE FINANCING

(TIME: ONE WEEK TO THREE MONTHS)

At the third stage in the process, the consultants that have been retained will bring their expertise to bear on the financial and legal structuring issues. Typically, this stage will include several all-hands meetings and discussions as the documentation for the financing takes shape.

Issuers need to remain keenly involved in this process so that the structuring alternatives being chosen are well understood and match up as closely as possible with the issuer's goals and objectives. Issuers should understand why each decision is being made and pay particular attention to the covenants, agreements, security features, and other obligations they are undertaking. Many financial advisors recommend using a "term sheet" to develop the basic provisions of the borrowing expressed in business terms before proceeding to the development of legal documents by bond counsel. Similarly, the issuer should be fully involved in reviewing and evaluating the disclosure being developed. Issuers may not rely entirely on the professionals they hire to ensure that adequate disclosure is provided.

Also, provisions in the documents that appear to be "boilerplate," while often needed and appropriate should not be glossed over by the issuer. If the issuer has concerns over any part of the documents, adequate explanations should be forthcoming from bond counsel and the other team members with respect to the inclusion of each provision being included.

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| <ol style="list-style-type: none">1. Initial organizational meeting
(All)2. Identify security structure alternatives and either select from among them or determine the criteria for selection (All)3. Determine the approximate size of the issue, taking into account amounts needed for costs of issuance, reserve accounts, and capitalized interest, as well as the project or program being financed (Issuer, financial advisor, underwriter) | <ol style="list-style-type: none">4. Is credit enhancement necessary? (Issuer, financial advisor, underwriter)5. Are supplemental revenue sources necessary or available? (Issuer, financial advisor, underwriter)6. What should be the terms of any underlying arrangements, including covenants of, and/or security provided by, any governmental entity using the project or any nongovernmental borrower? (Issuer, bond counsel, financial advisor, underwriter) |
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CHECKLIST OF STEPS IN A DEBT FINANCING

7. Is debt service coverage necessary? If so, how much? (**Issuer, financial advisor, underwriter**)
8. Is casualty insurance necessary? If so, how much? (**Issuer, financial advisor, underwriter**)
9. Are other covenants of issuer necessary or desirable? (**Issuer, financial advisor, underwriter, bond counsel**)
10. Evaluate legal, political, and regulatory constraints (**All**)
11. How do federal tax laws affect any or all of above? (**Bond counsel**)
12. How do federal and state securities laws affect any or all of the above? (**Bond counsel, underwriter's counsel, disclosure counsel**)
13. Are there state statutory constraints and what legal proceedings will be required? (**Bond counsel**)
14. Has an environmental review been satisfactorily completed? If not, will one be completed before an "approval" takes place? (**Issuer, financial advisor, underwriter, bond counsel, underwriter's counsel, disclosure counsel**)
15. What financial and operating data will be included in the issuer's annual report under SEC Rule 15c2-12? (**Bond counsel, disclosure counsel, financial advisor, underwriter**)
16. Will any additional types of listed event notices be required (other than the 11 categories specified in SEC Rule 15c2-12)? (**Bond counsel, disclosure counsel, financial advisor, underwriter**)
17. Should any steps be taken to resolve or reduce political controversy, or to forestall a possible reverse validation action? (**Issuer, bond counsel**)
18. Is there a debt policy in place that establishes goals or constraints on the financing? (**Issuer, financial advisor**)
19. Develop timetable for accomplishing remaining tasks (**All**)
20. Are any specific filings required? (**Issuer, bond counsel**)
21. Are approvals necessary other than by issuer (such as private activity bond volume cap)? (**Bond counsel**)
22. Other time constraints (**All**)
 - ✓ Construction constraints
 - ✓ Negotiations with other parties, *e.g.* credit enhancement provider
 - ✓ Refunding date
23. Agree upon allocation of responsibilities for tasks to be accomplished (**All**)
24. Prepare major legal documents relating to the financing, including indenture (or bond resolution), agreements defining any underlying arrangement (such as loan agreements, lease, or credit enhancement)

CHECKLIST OF STEPS IN A DEBT FINANCING

- agreement), Official Statement, notice of sale or bond purchase agreement, and Continuing Disclosure Agreement (**Bond counsel, financial advisor, underwriter's (or disclosure) counsel, underwriter**)
25. Meeting(s) or conference calls to review and negotiate terms of the major legal documents (**All**)
26. Due diligence review of all facts material to the investor's decision to buy the bonds (**All, but especially underwriter's counsel or disclosure counsel**)
27. Consideration of investment alternatives for bond proceeds. Will a guaranteed investment contract be used? If the issue includes refunding, will the escrow be funded with open market securities or SLGS? (**Issuer, financial advisor, underwriter, investment advisor, bond counsel**)
28. Credit rating agency review of the major legal documents and other relevant information (**Issuer, financial advisor, underwriter**)
29. Adoption by the governing body of the necessary resolutions or ordinances authorizing issuance of the bonds and execution of the legal documents either approving the notice of competitive sale or authorizing execution of the bond purchase agreement (**Issuer, bond counsel**)
30. File a validation action if such is determined to be necessary or appropriate (**Issuer, bond counsel, other counsel**)
31. Advise CDIAC of proposed sale 30 days in advance of proposed sale date (**Issuer, bond counsel**)

CHECKLIST OF STEPS IN A DEBT FINANCING

STEP 4: MARKETING AND CLOSING

(TIME: ONE WEEK TO THREE MONTHS)

At this point, the financing should be completely structured and all parties should be in agreement as to the ultimate terms of the financing (except the pricing or interest rate terms themselves). It is important to have worked out any major structuring issues or document provisions necessary to obtain a satisfactory rating or credit enhancement in advance of this stage, so that the final approvals by rating agencies and credit enhancers can go smoothly and without major revisions to the financing structure or security provisions. Nevertheless, it is possible that as a result of the first few steps outlined below, an issue will surface which requires the team to reassess some of the decisions made in Step 3.

Once the rating and/or credit enhancement is in place, it is time to go out into the market and price the issue. **At this stage, the final interest rates and other financial terms of the borrowing will be determined.**

PREPARING FOR MARKETING

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| <ol style="list-style-type: none">1. Provide final information to credit rating agencies (Issuer, financial advisor, underwriter)2. Obtain the credit rating (Issuer, financial advisor, underwriter, bond counsel)3. Meet with rating analysts (if necessary or appropriate) (Issuer, financial advisor, bond counsel)4. Site visit by rating analysts (if necessary or appropriate) (Issuer)5. Obtain final commitments from credit enhancement provider (if necessary) (Issuer, financial advisor, underwriter) | <ol style="list-style-type: none">6. Design the proposed maturity structure and establish redemption features for the bonds (Issuer, financial advisor, underwriter)7. Final review and approval of Preliminary Official Statement (All)8. If <u>competitive</u> sale, determine rules for selecting winning bidders (Issuer, financial advisor, bond counsel)9. If <u>negotiated</u> sale, determine whether syndicate or selling group is appropriate and who should be members (Issuer, underwriter, financial advisor) |
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INVESTMENT PLAN FOR BOND PROCEEDS

In the case of a simple investment of funds in a money market fund or in a pooled investment vehicle such as LAIF (the Local Agency Investment Fund of the State of

CHECKLIST OF STEPS IN A DEBT FINANCING

California), this step can easily be accomplished at or shortly after the closing of the issue. On the other hand, if open market treasury securities (especially for a refunding escrow) or a guaranteed investment contract will be used, a bidding procedure like the one outlined below may be required. This should be done in advance of the closing of the issue.

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| <p>10. Determine appropriate investment vehicles (Issuer, investment advisor, financial advisor, underwriter, bond counsel)</p> <p>11. Prepare and circulate for review a request for bids for investments (Investment advisor)</p> | <p>12. Evaluate responses (Investment advisor, bond counsel, financial advisor, underwriter)</p> <p>13. Negotiate final terms of investment arrangement with winning bidder (Issuer, bond counsel, trustee)</p> |
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MARKETING & PRICING

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| <p>14. Distribute Preliminary Official Statement to syndicate, selling group members, or potential bidders; and, potential investors (<u>if competitive sale, include Notice of Sale</u>) (Issuer, financial advisor, underwriter)</p> <p>15. Hold information meetings or teleconferences with investors and dealers, if necessary or appropriate (Issuer, financial advisor, underwriter)</p> <p>16. Remain prepared to answer any additional questions from analysts for potential bidders. (Issuer, bond counsel, financial advisor, underwriter)</p> <p>17. <u>For competitive bids</u>: Open bids at time and place specified in Notice of Sale. (Issuer, financial advisor, bond counsel)</p> <p>18. Determine winning bidder by applying rules specified in Notice</p> | <p>of Sale. (Issuer, financial advisor, bond counsel)</p> <p>19. If winning bid is acceptable, award bonds to winning bidder, creating, in effect, a Bond Purchase Agreement between the issuer and the winning bidder. (Issuer)</p> <p>20. For <u>negotiated sales</u>: conduct preliminary pricing discussion. (Issuer, underwriter, financial advisor)</p> <p>21. Finalize proposed pricing scale, release pricing and terms to market to solicit orders from targeted investors. (Underwriter)</p> <p>22. Reprice if too many or too few orders. (Issuer, underwriter, financial advisor)</p> <p>23. Agree upon the final rates and prices, then submit firm offer to Issuer. (Issuer, underwriter,</p> |
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CHECKLIST OF STEPS IN A DEBT FINANCING

financial advisor, underwriter's counsel)

24. Sign Bond Purchase Agreement. (**Issuer, underwriter, underwriter's counsel**)

25. Finalize and print Official Statement, describing final maturity schedule, interest rates, and reoffering prices to the public, as well as conforming descriptions of bonds and project to final design (**All**)

PRE-CLOSING

26. Prepare closing documents, review (usually by phone), and arrange for execution (**All**, but especially **Issuer** and **bond counsel**)
27. Execute and/or authenticate bonds (**Issuer, trustee**)

28. Final meeting to execute documents and ensure that all required documents are present and in the agreed-upon form (**All**)

CLOSING & DELIVERY OF FUNDS AND EXCHANGE OF BONDS

29. Telephone conference with Depository Trust Company, trustee, bond counsel, and issuer to release bonds to underwriter (**as listed**)
30. Exchange receipt for bond proceeds and receipt for bonds
31. Execute investment plan for bond proceeds
32. Pay necessary fees or charges, including settlement of bond

- insurance premiums, initial costs of issuance
33. Recordation of real estate deeds, leases and encumbrances
34. Ensure compliance with MSRB requirements for delivery of final Official Statement, escrow agreements (for refundings), and any other post-issuance filings

CHECKLIST OF STEPS IN A DEBT FINANCING

STEP 5: LIVING WITH THE ISSUE AFTER CLOSING

During the busy time of preparing for a bond issue, marketing, and closing, it is easy to forget that the bond issue will usually be in existence for a long period of time. After closing, the issuer and nongovernmental borrower will have to perform many tasks to assure that the financing is ultimately successful. It is important that staff members of the issuer/borrower be designated to take responsibility for the ongoing compliance and monitoring functions described below. During the initial structuring phases described in the previous steps, the post-issuance compliance issues should be kept in mind. Ideally, the people who will be responsible for post-issuance compliance on behalf of the issuer/borrower should be involved in the early phases of the project as well. The issuer/borrower will need to determine what consultants it will hire to perform these tasks and which tasks it will take on itself. Even when consultants (such as rebate compliance providers, continuing disclosure consultants or counsel, investment advisors, and others) are retained, issuers will need to monitor their performance and work product. Ultimately, it is the issuer/borrower who is responsible for adhering to these compliance requirements.

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| 1. Evaluate performance of financing team (Issuer) | 4. Comply with ongoing covenants (Issuer) |
| 2. Monitor the progress of the construction project or lending program (Issuer) | 5. Monitor interest rates and remain alert to refunding opportunities (Issuer) |
| 3. Administrative duties of issuer: | 6. File Annual financial statements and continuing disclosure information(Issuer) |
| ✓ Monitor compliance with tax rules for expenditures and use of project | 7. Ensure arbitrage rebate compliance (Issuer) |
| ✓ Monitor compliance with program rules for expenditures and use of project. | 8. Refinancing or refunding (if needed or appropriate) (Issuer, financial advisor, underwriter) |
| ✓ Provide financial and project reports to investors | 9. Respond to any inquiries or audits by the Internal Revenue Service or the Securities and Exchange Commission (Issuer, bond counsel, others , as required) |
| ✓ Monitor the trustee's performance, including: | |
| a) Collection of revenues | |
| b) Maintenance of accounts | |
| c) Investment of monies | |

CITY OF RANCHO PALOS VERDES
DEPRECIABLE INFRASTRUCTURE ASSETS AT JUNE 30, 2012

Type	Subtype	Life	Year Acq	Cost	Inflation Factor	Age (yrs)	Estimated Replace Cost
SEWER LINE	Clay	50	1973	2,836	3.35%	40	10,596
SEWER LINE	Clay	50	1973	87,701	3.35%	40	327,660
SEWER LINE	Clay	50	1973	13,182,228	3.35%	40	49,250,207
SEWER LINE	Clay	50	1973	526,113	3.35%	40	1,965,614
SEWER LINE	Clay	50	1973	202,831	3.35%	40	757,798
SEWER LINE	Clay	50	1973	342,314	3.35%	40	1,278,922
SEWER LINE	PVC	50	1973	9,658	3.35%	40	36,083
SEWER LINE	PVC	50	1973	47,072	3.35%	40	175,866
SEWER LINE	PVC	50	1973	305,153	3.35%	40	1,140,084
SEWER LINE	Abalone Cove System	50	2002	4,685,448	3.35%	11	6,732,346
SEWER LINE	PVDE Switchbacks	50	2012	210,532	3.35%	1	217,585
SEWER MANHOLES	Drop	30	1973	2,767	3.35%	40	10,338
SEWER MANHOLES	Shallow	30	1973	3,321	3.35%	40	12,408
SEWER MANHOLES	Siphon	30	1973	11,069	3.35%	40	41,355
SEWER MANHOLES	Standard	30	1973	4,383,410	3.35%	40	16,376,886
SEWER MANHOLES	Trap	30	1973	8,855	3.35%	40	33,083
SEWER MANHOLES	Abalone Cove System	30	2002	322,324	3.35%	11	463,135
SEWER PUMP STATIONS	Bloomwood	25	1972	50,863	3.35%	41	196,396
SEWER PUMP STATIONS	Laurel	25	1987	137,455	3.35%	26	323,767
SEWER PUMP STATIONS	Palos Verdes Dr	25	1973	55,346	3.35%	40	206,779
SEWER PUMP STATIONS	Pacifica Del Mar	25	1998	186,385	3.35%	15	305,540
SEWER PUMP STATIONS	Calle Entradero	25	1998	186,385	3.35%	15	305,540
SEWER PUMP STATIONS	Crest Rd	25	1959	21,592	3.35%	54	127,955
SEWER PUMP STATIONS	Burrell Lane	25	1979	91,181	3.35%	34	279,551
SEWER PUMP STATIONS	Abalone Cove System	25	2002	903,156	3.35%	11	1,297,711
SUBTOTAL SEWER ASSET				25,965,995			81,873,205
STORM DRAIN OUTLETS		100	1973	142,793	3.35%	40	533,490
STORM DRAIN INLETS		100	1973	56,453	3.35%	40	210,914
STORM DRAIN CULVERTS		100	1973	567,297	3.35%	40	2,119,482
STORM DRAIN MANHOLES		30	1973	74,164	3.35%	40	277,085
STORM DRAIN CATCH BASINS		100	1973	556,227	3.35%	40	2,078,123
STORM DRAIN CATCH BASINS		25	2007	257,662	3.35%	6	313,988
STORM DRAIN CATCH BASINS		25	2007	320,000	3.35%	6	389,954
STORM DRAIN LINES	CMP	30	1973	17,821	3.35%	40	66,581
STORM DRAIN LINES	CMP	30	1973	11,643	3.35%	40	43,499
STORM DRAIN LINES	CMP	30	1973	4,732	3.35%	40	17,679
STORM DRAIN LINES	CMP	30	1973	1,868	3.35%	40	6,979
STORM DRAIN LINES	CMP	30	1973	23,176	3.35%	40	86,588

**CITY OF RANCHO PALOS VERDES
DEPRECIABLE INFRASTRUCTURE ASSETS AT JUNE 30, 2012**

Type	Subtype	Life	Year Acq	Cost	Inflation Factor	Age (yrs)	Estimated Replace Cost
STORM DRAIN LINES	CMP	30	1973	22,415	3.35%	40	83,745
STORM DRAIN LINES	CMP	30	1973	9,132	3.35%	40	34,118
STORM DRAIN LINES	CMP	30	1973	1,992	3.35%	40	7,442
STORM DRAIN LINES	CMP	30	1973	3,196	3.35%	40	11,941
STORM DRAIN LINES	CMP	30	1973	28,060	3.35%	40	104,835
STORM DRAIN LINES	CMP	30	1973	26,082	3.35%	40	97,445
STORM DRAIN LINES	RCP	50	1973	24,214	3.35%	40	90,466
STORM DRAIN LINES	RCP	50	1973	59,525	3.35%	40	222,392
STORM DRAIN LINES	RCP	50	1973	53,962	3.35%	40	201,608
STORM DRAIN LINES	RCP	50	1973	37,608	3.35%	40	140,507
STORM DRAIN LINES	RCP	50	1973	26,151	3.35%	40	97,703
STORM DRAIN LINES	RCP	50	1973	21,613	3.35%	40	80,748
STORM DRAIN LINES	RCP	50	1973	7,748	3.35%	40	28,947
STORM DRAIN LINES	RCP	50	1973	23,038	3.35%	40	86,072
STORM DRAIN LINES	RCP	50	1973	60,593	3.35%	40	226,382
STORM DRAIN LINES	RCP	50	1973	25,874	3.35%	40	96,668
STORM DRAIN LINES	CMP	30	1994	4,076	3.35%	19	7,623
STORM DRAIN LINES	RCP	50	1998	20,502	3.35%	15	33,609
STORM DRAIN LINES	RCP	50	1999	30,067	3.35%	14	47,691
STORM DRAIN LINES	RCP	50	1999	289,000	3.35%	14	458,400
STORM DRAIN LINES	RCP	50	2000	1,100,000	3.35%	13	1,688,220
STORM DRAIN LINES	RCP	50	2001	82,000	3.35%	12	121,770
STORM DRAIN LINES	RCP	50	2001	52,500	3.35%	12	77,962
STORM DRAIN LINES	RCP	50	2001	18,000	3.35%	12	26,730
STORM DRAIN LINES	RCP	50	2001	3,100,000	3.35%	12	4,603,493
STORM DRAIN LINES	HDP	50	2002	134,289	3.35%	11	192,955
STORM DRAIN LINES	Upper San Ramon	50	2003	4,066,778	3.35%	10	5,653,993
STORM DRAIN LINES	PVE/RPV Joint	50	2003	583,052	3.35%	10	810,610
STORM DRAIN LINES	Altamira Canyon	50	2003	119,535	3.35%	10	166,188
STORM DRAIN LINES	PVIC	50	2004	333,693	3.35%	9	448,892
STORM DRAIN LINES	Western Ave/Delasonde-Westmont	50	2005	634,523	3.35%	8	825,907
STORM DRAIN LINES	Bay Club Interim	50	2006	179,535	3.35%	7	226,111
STORM DRAIN LINES	Lining Pontevedre	50	2006	267,159	3.35%	7	336,468
STORM DRAIN LINES	Lining Tarapaca	50	2006	81,730	3.35%	7	102,933
STORM DRAIN LINES	Lining Various	50	2006	980,603	3.35%	7	1,234,999
STORM DRAIN LINES	Lining Monero	50	2007	163,931	3.35%	6	199,767
STORM DRAIN LINES	Sunnyside	50	2007	255,824	3.35%	6	311,748
STORM DRAIN LINES	Sunnyside	50	2008	397,326	3.35%	5	468,489
STORM DRAIN LINES	Mossbank	50	2008	245,885	3.35%	5	289,924

CITY OF RANCHO PALOS VERDES
DEPRECIABLE INFRASTRUCTURE ASSETS AT JUNE 30, 2012

Type	Subtype	Life	Year Acq	Cost	Inflation Factor	Age (yrs)	Estimated Replace Cost
STORM DRAIN LINES	Altamira Canyon	50	2009	115,739	3.35%	4	132,045
STORM DRAIN LINES	Via Colinita	50	2009	155,505	3.35%	4	177,413
STORM DRAIN LINES	Lining Various	50	2009	1,122,978	3.35%	4	1,281,189
STORM DRAIN LINES	McCarrell Canyon	50	2010	7,487,717	3.35%	3	8,265,723
SUBTOTAL STORM DRAIN ASSET				24,486,986			35,946,236
MEDIANS	TREES	10	1973	627,516	3.35%	40	2,344,467
MEDIANS	NO TREES	100	1973	109,636	3.35%	40	409,612
MEDIANS	NO TREES	100	1979	1,279	3.35%	34	3,921
MEDIANS	PVDE/PVDS	100	2008	102,110	3.35%	5	120,398
MEDIANS	PVDW/Hawthorne	100	2010	493,538	3.35%	3	544,819
TRAFFIC SIGNALS		50	1973	449,632	3.35%	40	1,679,873
TRAFFIC SIGNALS		50	1999	143,174	3.35%	14	227,097
TRAFFIC SIGNALS		50	2000	147,107	3.35%	13	225,772
TRAFFIC SIGNALS		50	2002	143,906	3.35%	11	206,773
TRAFFIC SIGNALS		50	2003	166,238	3.35%	10	231,119
TRAFFIC SIGNALS		50	2008	100,000	3.35%	5	117,910
TRAFFIC SIGNALS		50	2012	181,091	3.35%	1	187,158
CURB & GUTTER	TREES	10	1973	2,096,185	3.35%	40	7,831,570
CURB & GUTTER	NO TREES	100	1973	1,732,260	3.35%	40	6,471,908
SIDEWALK	TREES	10	1973	2,545,542	3.35%	40	9,510,416
SIDEWALK	TREES	10	1973	60,862	3.35%	40	227,387
SIDEWALK	NO TREES	100	1973	-	3.35%	40	-
SIDEWALK	NO TREES	100	1973	943,637	3.35%	40	3,525,528
SIDEWALK	NO TREES	100	1973	375,283	3.35%	40	1,402,097
PAVEMENT	OVERLAY	30	1973	2,093,761	3.35%	40	7,822,514
PAVEMENT	OVERLAY	30	1995	42,890	3.35%	18	77,615
PAVEMENT	OVERLAY	30	1996	559,474	3.35%	17	979,621
PAVEMENT	OVERLAY	30	1997	960,756	3.35%	16	1,627,724
PAVEMENT	OVERLAY	30	1998	138,200	3.35%	15	226,551
PAVEMENT	OVERLAY	30	1999	11,190,735	3.35%	14	17,750,286
PAVEMENT	OVERLAY	30	2000	2,673,734	3.35%	13	4,103,500
PAVEMENT	OVERLAY	30	2001	4,185,610	3.35%	12	6,215,621
PAVEMENT	SLURRY SEAL	30	1973	7,142,793	3.35%	40	26,686,235
PAVEMENT	SLURRY SEAL	30	1985	92,469	3.35%	28	232,643
PAVEMENT	SLURRY SEAL	30	1993	2,420,686	3.35%	20	4,678,946
PAVEMENT	SLURRY SEAL	30	1994	1,395,057	3.35%	19	2,609,102
PAVEMENT	SLURRY SEAL	30	1995	8,709,975	3.35%	18	15,761,791
PAVEMENT	SLURRY SEAL	30	1996	4,784,334	3.35%	17	8,377,215

CITY OF RANCHO PALOS VERDES
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Type	Subtype	Life	Year Acq	Cost	Inflation Factor	Age (yrs)	Estimated Replace Cost
PAVEMENT	SLURRY SEAL	30	1997	11,407,001	3.35%	16	19,325,875
PAVEMENT	SLURRY SEAL	30	1998	295,816	3.35%	15	484,930
PAVEMENT	SLURRY SEAL	30	1999	522,586	3.35%	14	828,905
PAVEMENT	SLURRY SEAL	30	2000	2,447,651	3.35%	13	3,756,520
PAVEMENT	SLURRY SEAL	30	2001	2,079,653	3.35%	12	3,088,280
PAVEMENT	OVERLAY	30	2002	1,358,647	3.35%	11	1,952,189
PAVEMENT	OVERLAY	30	2003	1,904,155	3.35%	10	2,647,324
PAVEMENT	OVERLAY	30	2005	1,130,785	3.35%	8	1,471,851
PAVEMENT	OVERLAY	30	2007	1,925,049	3.35%	6	2,345,874
PAVEMENT	OVERLAY	30	2008	2,488,367	3.35%	5	2,934,045
PAVEMENT	OVERLAY	30	2009	980,231	3.35%	4	1,118,331
PAVEMENT	OVERLAY	30	2010	3,381,914	3.35%	3	3,733,310
PAVEMENT	OVERLAY	30	2011	1,590,316	3.35%	2	1,698,652
PAVEMENT	OVERLAY	30	2012	2,395,947	3.35%	1	2,476,211
SUBTOTAL STORM DRAIN ASSET				90,717,588			180,279,486
RYAN PARK BUILDING	30359 Hawthorne	50	1969	32,865	3.35%	44	140,213
GARAGE	30359 Hawthorne	50	1969	4,069	3.35%	44	17,360
PLANNING/ENVIRONMENTAL SERVICE	30940 Hawthorne	50	1979	202,202	3.35%	34	620,377
CABLE TV STATION	30940 Hawthorne	50	1979	77,770	3.35%	34	238,606
HESSE PARK BUILDING	29301 Hawthorne	50	1982	407,190	3.35%	31	1,131,609
DUMPSTER GARAGE	30940 Hawthorne	50	1982	6,897	3.35%	31	19,167
RECREATION AND PARKS		50	1983	52,860	3.35%	30	142,140
LADERA LINDA BUILDING 1	32201 Forrestal	50	1983	146,246	3.35%	30	393,254
LADERA LINDA BUILDING 2	32201 Forrestal	50	1983	134,793	3.35%	30	362,457
LADERA LINDA BUILDING 3	32201 Forrestal	50	1983	130,388	3.35%	30	350,612
LADERA LINDA BUILDING 4	32201 Forrestal	50	1983	130,388	3.35%	30	350,612
LADERA LINDA BUILDING 5	32201 Forrestal	50	1983	118,935	3.35%	30	319,815
LADERA LINDA SHED	32201 Forrestal	50	1983	3,399	3.35%	30	9,140
POINT VICENTE INTERPRETIVE CENTER		50	1984	173,090	3.35%	29	450,310
CITY HALL BUILDING	30940 Hawthorne	50	1986	965,712	3.35%	27	2,352,155
PVIC BUILDING EXPANSION		50	2006	6,013,760	3.35%	7	7,575,266
CITY HALL ROOF		25	2007	198,000	3.35%	6	241,327
AFFORDABLE CONDO UNIT	28121 Highridge Rd #208	25	2009	328,916	3.35%	4	375,289
GENERATOR INFRASTRUCTURE	30940 Hawthorne	25	2010	252,059	3.35%	3	278,274
SUBTOTAL BUILDINGS ASSET				9,379,539			15,367,980
HESSE COMMUNITY PARK		25	1973	3,308,215	3.35%	40	12,371,006
MARTINGALE TRAILHEAD PARK		25	1978	5,000	3.35%	35	15,856

**CITY OF RANCHO PALOS VERDES
DEPRECIABLE INFRASTRUCTURE ASSETS AT JUNE 30, 2012**

Type	Subtype	Life	Year Acq	Cost	Inflation Factor	Age (yrs)	Estimated Replace Cost
CLOVERCLIFF PARK		25	1983	19,500	3.35%	30	52,440
DEL CERRO PARK		25	1983	39,400	3.35%	30	105,956
ABALONE COVE SHORELINE PARK		25	1989	237,000	3.35%	24	522,920
LOWER HESSE PARK IMPROVEMENTS		25	2000	554,786	3.35%	13	851,686
LOWER HESSE PARK IMPROVEMENTS		25	2001	27,772	3.35%	12	41,253
ABALONE COVE BEACH IMPROVEMENTS		25	2003	133,297	3.35%	10	185,371
PVIC SOIL REMEDIATION		25	2003	1,250,105	3.35%	10	1,738,477
FORRESTAL SWALE		25	2007	464,787	3.35%	6	566,494
PVIC/AB COVE BLUFFTOP SAFETY FENCE		25	2007	129,505	3.35%	6	157,844
PVIC & FORRESTAL TRAIL IMPROVEMENTS		25	2009	114,284	3.35%	4	130,397
HESSE PARK LOWER PICNIC/PLAYGROUND		25	2010	198,377	3.35%	3	219,009
HESSE PARK BALL FIELD		25	2011	220,296	3.35%	2	235,324
RYAN PARK BALL FIELD		25	2012	275,608	3.35%	1	284,841
SUBTOTAL PARK IMPROVEMENTS ASSET				6,977,932			17,478,873
GRAND TOTAL DEPRECIABLE INFRASTRUCTURE ASSET				157,528,040			330,945,779