

To: Mike Meyer, NHA Advisors

From: Rob Larkins, Loop Capital Markets  
Craig Bettencourt, Hilltop Securities

Re: City of Richmond 2022 POBs, Rationale for Increased Underwriters' Compensation

Date: June 29, 2022

In our individual responses to the City of Richmond's (the "City") Request for Qualifications for Pension Obligation Bond Underwriting Firms, due April 1, 2022, Loop Capital Markets ("Loop") and Hilltop Securities ("HTS") independently submitted fee proposals that assumed a 2034 final maturity, and both firms' proposals were premised on a sole Underwriter/Placement Agent arrangement. Loop proposed \$2.50/bond as underwriter for a public sale, and HTS proposed a flat fee of \$165,000 as placement agent for a direct bank placement and \$2.32/bond as underwriter for a public sale.

In subsequent negotiations with NHA Advisors ("NHA"), and with the approval of Anil Camelo at the City, both firms agreed to a fee of \$3/bond, split 50/50, with underwriting/placement expenses to be paid out of Costs of Issuance.

Since that time, HTS has determined that a private placement is not competitive, and the finance team has pivoted to a public offering. After exhaustive (and ongoing) analysis, the finance team is now leaning toward recommending an extension of the final maturity to 2050-2052 in order to provide substantial General Fund budget relief to the City. Accordingly, both Loop and HTS are asking that the City revisit our fee proposal to reflect the longer maturity of the 2022 Bonds, as well as the massive commitment of resources by both firms since our engagement commenced in April – and cognizant of the expected continued commitment of time and resources to bring the financing to a successful culmination in August/September. We are only 3 months in, and our assessment is that we are only about 25% of the way to the finish line. There remains to come a great deal of quantitative analysis, document review (the first draft of the Preliminary Official Statement is yet to come), development of the rating presentation and investor presentation, and Council education materials.

Both firms are committed to honoring the original arrangement of \$3/bond "takedown" (sales commission to place the Bonds) for maturities through 2034. However, it is customary in the municipal bond market that longer maturities carry higher takedowns to compensate sales professionals' added work in marketing longer-dated securities to potential investors. Accordingly, Loop and HTS are proposing the following takedowns:

- o Maturities through 2034: \$3/bond
- o Maturities 2035-2040: \$3.75/bond
- o Maturities 2041 and longer: \$5/bond

These fees, split 50/50 per the original agreement, would be payable from the normal "Underwriters' Discount" which is deducted from the Net Proceeds we would wire to the Bond Trustee at Closing, while "Underwriters' Expenses" (Underwriters' Counsel and other customary fees) would be funded from Costs of Issuance. We have provided, in an Exhibit, examples of takedowns for comparably (or higher) rated transactions of comparable tenor (maturity) priced since January 1, 2022, including the most recent Pension Bond issued in California (Barstow) and most recent outside of California (Longview, Texas). The rise in takedowns for taxable deals can be directly attributed to the volatility in the taxable fixed income market which we have seen over the past few months.

At the time when both firms were mandated as co-equal underwriters, Loop and HTS agreed to the above-referenced \$3/bond fee (with expenses paid from Costs of Issuance) **with the explicit understanding that NHA and the City would keep an open mind to a "Management Fee,"** which is compensation paid to underwriters for their banking work. In the case of our assignment for the City, to date, this includes, but is not limited to:

- Unraveling the 2005 POBs and associated RBC Swaps. This has involved going to the source documents (the 2005 Indenture and Swap Confirmations) to determine what is actually owed by the City (pursuant to the Credit Adjustment under the 2005 Indenture), as well as working with NHA and the City's Swap Advisor, KPM Financial, to nail down the expected termination cost of the RBC Swaps. We have also had to reconstruct what would be due/payable by the City pursuant to the existing debt service pre-funding arrangement under the 2005 Indenture, as well as the currently "live" B-1 Swap.
- Extensive, repeated efforts to ascertain current holders of the privately placed B-1 and B-2 Bonds for possible negotiation of an early call, including multiple interactions with the Trustee and DTC and numerous outreaches to Citibank, who is listed on DTC's



reports as the “holder” of the B-2s. Our research suggests that Citi is a custodian, rather than the beneficial owner. Nonetheless, despite several efforts to engage them, Citi has been completely unresponsive.

- Evaluating Defeasance of the 1999 POBs to eliminate their prior claim on Pension Tax Override (PTO) revenues and avoid a second, separate debt service pre-funding requirement, determining the cost of a defeasance, sorting out where the City's PTO revenues have been deposited, and drilling down to what cash contribution will be required of the City at closing to accomplish a defeasance of the 1999s.
- Working with the County of Contra Costa to unravel the existing timing/distribution of PTO revenues. This involved numerous email exchanges with the Auditor-Controller's Office to get remittance records with the goal of determining actual PTO revenues, including “rebates” to the City from the RPTTF.
- Working with US Bank to determine funds available under the 1999 and 2005 Indentures and further determining what funds we expect the City will have available after paying the 8/1/22 scheduled sinking fund payment and 8/1/22 coupon on the B-1s, as well as the remaining 8/1/22 net Swap obligation.
- Working with Bond Counsel to determine what funds on hand under the 2005 Indenture can legally be applied to the 1999 Bonds vs the defeasance of the 2005 B-1s and the appropriate legal requirements for defeasing the 1999s, 2005 B-1s and 2005 B-2s.
- Extensive quantitative analysis to arrive at the optimal “Holistic Solution” to put the City on a path to successful administration of the 2022 Bonds with an easy-to-administer semi-annual debt repayment structure and a sustainable debt repayment profile.
- Creating numerous models to bifurcate 2022 POB debt service between PTO-eligible debt service (associated with refunding the B-1s and B-2s) and debt service associated with terminating the RBC Swaps, which cannot be funded from PTO revenues.
- Working with Bartel Associates to determine what share of the City's pension expenses are eligible for the City's voter-approved PTO, and then factoring in that data into our Holistic Solution model.
- Working with Bond Counsel to develop the First Supplemental Indenture, with an eye on the underlying PTO distribution mechanics to make sure the 2022 Bonds “fit” with the underlying facts and the City's debt administration resources. This has included creating an Appendix to the First Supplemental Indenture that will provide the City and the Trustee a clear “road map” as to how much of each semi-annual debt service payment will be payable from PTO revenues vs the General Fund. We have also spent a lot of time determining the appropriate lien on PTO revenues and a fact-base release of said lien each Bond Year.
- Extensive actuarial analysis, including development/review of the Bartel Report, with the goal of drilling down to the City's future pension costs (not just the Allocable Percentage of the 2022 POBs, but also including UAL and Normal Cost expenses for both the Miscellaneous Plan and Safety Plan) to determine what future costs can be paid from PTO revenues to minimize the City's future Net General Fund Cost.
- Working with NHA to create educational materials to educate the Council about the City's pension situation and viable options. We note that each version of these materials has required both firms to invest significant time and resources.
- Exploration of a direct bank placement, contacting 26 banks and other institutional investors. Led by HTS, this included multiple contacts with the leading banks active in this direct lending space, with a particular focus on those banks that have previously shown an appetite for California POBs. This involved significant time/resources to explain the City's credit and the specifics of the City's voter-approved Pension Tax Override. HTS also invested considerable time/resources discussing with target banks the concept of a separate series of Bonds that would be secured by a pledge of PTO revenues that would provide a certain level of debt service coverage. Though it now appears that a public offering will be more cost-effective, HTS' efforts to secure a cost-effective bank placement consumed considerable time and effort by HTS' bankers, as well as their credit specialist.

What started out as periodic Teams Meetings has now morphed into bi-weekly (at a minimum) calls, and we have yet to start the POS preparation process, from which HTS will be deriving the rating deck and investor presentation. Based on both firms' vast professional experience, we believe, despite our massive investment of time and resources to date, that we are only 25-30% of the way to the finish line. We also note that preceding and following many/most of these Teams Meetings both firms have prepared extensive analysis.

**Accordingly, we believe that a Management Fee of \$200,000 to each firm is fair and warranted.** Keep in mind that while each of the other firms involved with this engagement – Bond Counsel, Disclosure Counsel, Underwriters' Counsel, and NHA – are tasked with their individual responsibilities, both Loop and HTS need to review and input on everything: the legal documents, the POS, NHA's quantitative work and presentations to the City, in addition to our own, independent quantitative analysis, actuarial review/analysis, and the rating and investor decks.

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Each of the assigned senior professionals at Loop and HTS have been doing municipal finance for at least three decades, and none of us has ever encountered such a resource-heavy assignment. We are up to the task, and we are enthusiastically committed to tapping whatever resources at our firms are required to deliver a first-class, long-term viable solution for the City.

We look forward to an expeditious resolution of this matter so that the NTE parameters in the Resolution can be revised in time to meet the City's agenda filing deadline for its July 26 Council meeting.



**\$45,600,000**  
 City of Longview, Texas  
 GO Pension Bonds (Taxable)  
 Ratings (M/S&P/F): NR/AA/AA  
 Priced: 6/15/2022  
 Closing: 7/14/2022

Maturity	Par (\$000)	Coupon (%)	Takedown (\$/bond)
2023	\$375	3.206%	\$1.250
2024	715	3.406	2.500
2025	770	3.663	2.500
2026	830	3.844	2.500
2027	895	3.994	3.750
2028	965	4.111	3.750
2029	1,040	4.211	3.750
2030	1,120	4.292	3.750
2031	1,205	4.392	3.750
2032	1,295	4.542	3.750
2033	1,395	4.642	4.500
2034	1,500	4.742	4.500
2035	1,615	4.842	4.500
2036	1,735	4.942	4.500
2037	1,870	4.992	4.500
2038	2,010	4.042	4.500
2039			
2040			
2041			
2042	9,655	5.233	4.500
2043			
2044			
2045			
2046			
2047	16,610	5.333	4.500
2048			
2049			
2050			
2051			
2052			
2053			
2054			
2055			
2056			
2057			
2058			
2059			
2060			
<b>Total Par</b>	<b>\$45,600</b>	<b>Avg Takedown</b>	<b>\$4.265</b>

**\$115,705,000**  
 NYC Housing Development Corporation  
 Multi-Family Housing Revenue Bonds  
 Ratings (M/S&P/F): Aa2/AA+/NR  
 Priced: 6/7/2022  
 Closed: 6/21/2022

Maturity	Par (\$000)	Coupon (%)	Takedown (\$/bond)
2023			
2024			
2025			
2026	\$920 / \$950	2.600% / 2.750%	\$3.750
2027	965 / 980	2.850 / 2.950	3.750
2028	995 / 1,015	3.100 / 3.150	3.750
2029	1,030 / 1,055	3.250 / 3.300	3.750
2030	1,075 / 1,095	3.350 / 3.400	5.000
2031	1,115 / 1,140	3.550 / 3.600	5.000
2032	2,350 / 2,475	3.700 / 3.750	5.000
2033	2,475 / 2,535	3.750	5.000
2034			
2035			
2036			
2037	8,385	3.875	6.250
2038			
2039			
2040			
2041			
2042	28,000	4.000	6.250
2043			
2044			
2045			
2046			
2047	13,250	4.125	6.250
2048			
2049			
2050			
2051			
2052	37,285	4.250	6.250
2053			
2054			
2055			
2056			
2057	9,090	4.300	6.250
2058			
2059			
2060			
<b>Total Par</b>	<b>\$115,705</b>	<b>Avg Takedown</b>	<b>\$5.952</b>

**\$950,000,000**  
 New York City, NY  
 General Obligation Bonds  
 Ratings (M/S&P/F): Aa2/AA/AA-  
 Priced: 5/19/2022  
 Closed: 5/26/2022

Maturity	Par (\$000)	Coupon (%)	Takedown (\$/bond)
2023			
2024	\$19,585	5.000%	\$1.250
2025	20,570	5.000	2.500
2026			
2027			
2028			
2029			
2030	4,825	5.000	3.750
2031	31,330	5.000	3.750
2032	32,895	5.000	4.500
2033	34,540	5.000	4.500
2034	36,265	5.000	4.500
2035	38,080	5.000	4.500
2036	39,985	4.000	4.500
2037	41,585	4.000	4.500
2038	43,665	5.250	4.500
2039	45,955	5.250	4.500
2040	28,370 / 20,000	4.250 / 5.250	4.500 / 4.500
2041	50,625	5.250	4.500
2042	53,280	5.250	4.500
2043	56,080	5.250	4.500
2044	59,020	5.500	4.500
2045	62,270	5.500	4.500
2046	65,695	5.500	4.500
2047			
2048			
2049	165,380	4.500	4.500
2050			
2051			
2052			
2053			
2054			
2055			
2056			
2057			
2058			
2059			
2060			
<b>Total Par</b>	<b>\$950,000</b>	<b>Avg Takedown</b>	<b>\$4.361</b>