

DRAFT



City of Allentown

Analysis of the City's Significant Financial Challenge

September 27, 2012

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Executive Summary

1. A significant ongoing fiscal imbalance has resulted in the need to find a long-term solution to the City's fiscal challenges
2. To close the fiscal gap in recent years, the City has utilized available Fund Balance while also making substantial expenditure reductions
 - A. Since 2008, the City's General Fund Balance has declined from approximately \$8.2mm to a current level of \$1.7mm
3. As calculated by the City's actuary, projected pension costs are anticipated to result in significantly greater fiscal pressures to the City's General Fund (2012 current estimate of unfunded liability is \$158mm)
 - A. The Unfunded Liability of the City's Fire and Police Pension plans continue to rise, causing the annual cost (called the Minimum Municipal Obligation) to increase
 - B. Under current actuarial assumptions, the MMO is projected to increase by approximately \$12.5mm over the next 5 years
 - C. To potentially avoid a future MMO increase, the City could make a significant contribution towards the Fire and Police Pension plans to reduce the unfunded liability
4. The need for a long-term fiscal solution is imperative to ensure the City's financial stability



Options Explored to Address the City's Financial Challenges

Revenue Enhancement Options

Option 1 – Raise the millage rate

Option 2 – Raise the earned income tax

Option 3 – Petition the courts to issue unfunded debt obligations

Options to Reduce Unfunded Liability

Option 4 – Issue a Pension Obligation Bond to reduce unfunded liability

Option 5 – Sell the Water and Sewer systems to a new Allentown Authority

Option 6 – Enter into a concession/lease agreement related to the Water and Sewer systems with an outside public or private operator

Option 7 – Sell or enter into a concession/lease agreement on other City assets

Note: Some of the options above could be used in combination.



Option 1 – Raise the millage rate

1. One long-term solution to the City's fiscal challenges is to raise the real estate tax (i.e. millage rate) to cover increasing obligations
2. Millage Impact:
 - A. Assumptions to cover increase in MMO only, no immediate reduction in the unfunded liability:
 - a. Current MMO: \$13,200,000
 - b. Estimated MMO in 5 years: \$25,700,000
 - c. **Budget Impact from increased MMO: \$12,500,000**
 - d. Value of a mill: \$1,600,000
 - e. Current millage rate: 17.54 mills
3. Conclusion:
 - a. The millage rate would need to **increase by 7.53 mills** to cover the projected MMO increase over the next 5 years. The millage rate would go from **17.54 mills to 25.34 mills**.
 - b. The millage rate increase above would **only** cover the MMO increase projected under current actuarial assumptions. Additional millage rate increases may be needed for other City expenditure needs and increases.
 - c. Impact to average annual household real estate bill is an increase of \$308.16. Assumes current average real estate bill is \$684.81.



Option 2 – Raise the earned income tax

1. The City could decide to increase the Act 511 earned income tax to generate additional revenue to cover increasing obligations
2. Act 511 EIT Rate Impact:
 - A. Assumptions to cover increase in MMO only, no immediate reduction in the unfunded liability:
 - a. Current MMO: \$13,200,000
 - b. Estimated MMO in 5 years: \$25,700,000
 - c. **Budget Impact from increased MMO: \$12,500,000**
 - d. Current City Act 511 EIT rate: 0.85%
 - e. Current City Act 511 EIT revenue: \$12,500,000
3. Conclusion:
 - a. The City's earned income tax rate would need to **increase by 100%** to cover the projected MMO increase over the next 5 years. The EIT rate would go from **0.85% to 1.70%**.
 - b. The EIT rate increase above would **only** cover the MMO increase projected under current actuarial assumptions. Additional rate increases may be needed for other City expenditure needs and increases.
 - c. Impact to average annual household earned income tax is an increase \$307.72. Assumes average household income from the 2010 census of \$36,207.



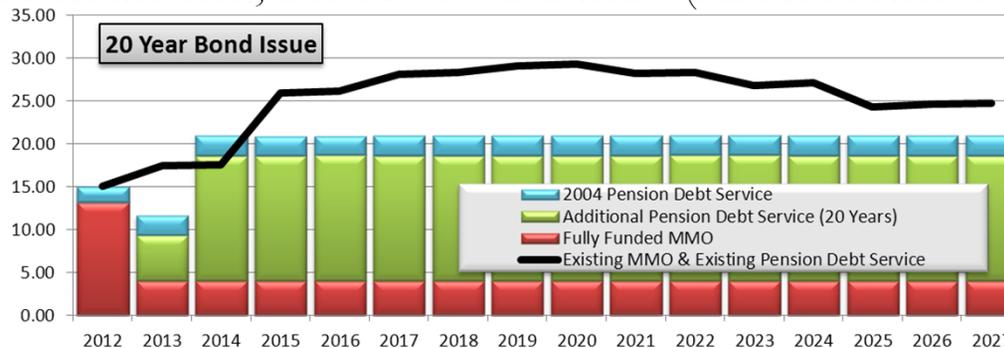
Option 3 – Petition the courts to issue unfunded debt obligations

1. Apply annually to courts to receive authority to borrow money to pay expenditures
 - A. Borrow at a taxable rate for 10-year term
2. May not receive court approval
3. May not be able to access lending markets
4. Conclusion:
 - A. Petitioning the courts to issue unfunded debt obligations is not a long-term solution to the City's challenges



Option 4 – Issue a Pension Obligation Bond to reduce unfunded liability

1. The City could issue a taxable Pension Obligation Bond (“POB”) secured by the General Obligation pledge of the City
 - A. POB proceeds would be used to reduce the City’s unfunded pension liability
 - B. Reduced unfunded pension liability would result in a reduced annual MMO cost to the GF budget
 - C. POB annual debt service costs would result in a new expenditure to the GF budget
 - D. Rate of return on Pension assets need to exceed interest rate of POBs. (i.e. if a taxable POB costs the City 6.25%, pension assets need average annual returns greater than 6.25% to provide a benefit to the City)
 - a. Actual Allentown pension fund rate of return results – 1 yr – 0.4%, 5 yr – 1.4%, 10 yr – 3.7%.
2. Conclusion:
 - A. While a POB would substantially reduce the City’s unfunded pension liability resulting in a reduced annual MMO cost, the POB debt service cost would eliminate a significant portion of the benefit realized
 - B. The City would need to consider another long-term solution to fund the POB debt service (i.e. millage rate increases similar to Option 1)
 - C. If investment rates fall short, then MMO will increase (market risk and fund management risk)



Option 4 – Issue a POB - Assumptions

1. Assumptions:
 - A. City would issue \$161mm of 20 or 30 year taxable bonds
 - B. City funds liability with POB proceeds secured by General Obligation pledge of the City
 - C. Annual POB debt service would be approximately \$14.6mm for a 20 year issue and \$12.9mm for a 30 year issue
 - D. Assumes a bond closing in Spring 2013
 - E. No impact to Water and Sewer funds. Water/sewer fund continue to pay annual sewer/water debt service (approximately \$4.5mm annually)
 - F. The City's General Fund could continue to realize Interfund transfer and general city charges of approximately \$5mm
 - G. 2004 POBs remain outstanding
2. Other Considerations:
 - A. General obligation pledge on the Bonds by the City would place significant downward pressure on City's credit rating.
 - B. Main concept with POBs is that the investment rate of return of the pension fund will exceed the cost (yield) of the debt service on the POBs.
 - C. Actual Allentown pension fund rate of return results - 1 year - 0.4%, 5 year - 1.4%, 10 year - 3.7%
 - D. Estimated borrowing interest rates between 6.5% to 7.5%
 - E. If investment rates fall short, then MMO will increase (market risk and fund management risk)
 - F. Substantial reduction of unfunded liability and reduction in projected annual MMO. Assumes only normal cost of the MMO under current actuarial assumptions.
 - G. City real estate millage rates would have to fund the increases in POB debt service
 - H. Sewer and water rates should be able to remain constant in the short term.
 - I. City issued a POB in 1996 at a rate of approximately 6.25% and subsequently restructured it in 2004 at an approximate rate of 5.25%, which has a final maturity in 2034
 - J. Act 205 EIT may be eliminated

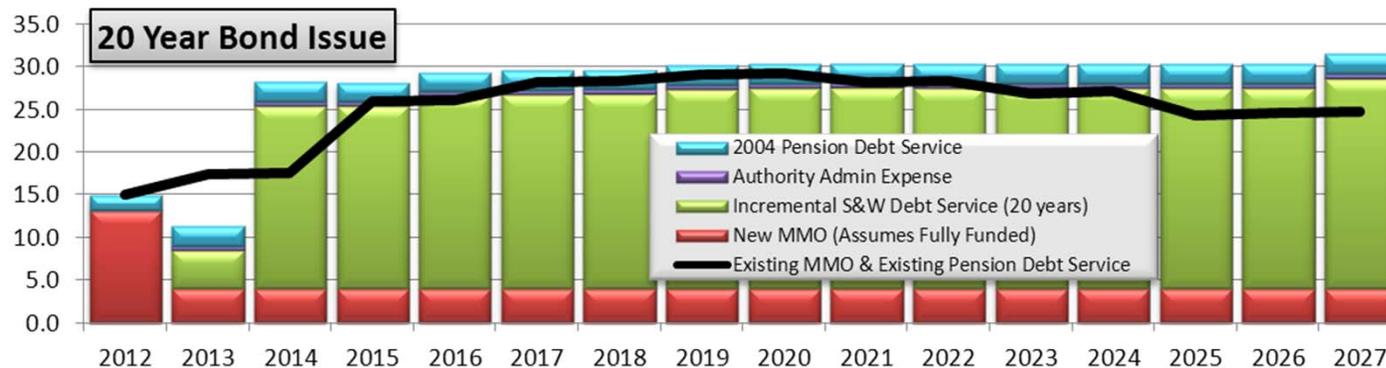
Funds are illustrated to be used in the following manner:

	(\$ millions)	20 Year	30 Year
<i>Fund unfunded liability</i>		\$158.0	\$158.0
<i>Costs</i>		\$3.0	\$3.0
Total		\$161.0	\$161.0



Option 5 – Sell the Water and Sewer systems to a new Allentown Authority

1. The City could decide to sell the Water and Sewer systems to a newly created Allentown Authority
2. The new Allentown Authority would need to issue bonds secured by Water and Sewer revenues to fund the purchase of the Water and Sewer systems from the City
3. The City would use the proceeds from the sale to substantially reduce the unfunded pension liability and payoff existing Water and Sewer debt
4. Conclusion:
 - A. The City could substantially reduce the unfunded pension liability and eliminate debt service related to currently outstanding Water and Sewer debt
 - B. The new debt service of the Allentown Authority would be substantially greater than current Water and Sewer debt service, resulting in the need for increased Water and Sewer rates
 - C. Impact to average annual Water and Sewer bills is an increase of \$413.95. Average Water and Sewer bill is currently \$487 per year.
 - D. New State legislation may or may not impact the viability of this option



Option 5 – Sell the Water and Sewer systems to a new Allentown Authority - Assumptions

1. Assumptions:

- A. Authority would issue \$240.0 million [1] of 20 year or 30 year taxable Bonds [2]
- B. \$158 million unfunded liability reflects 2012 estimate from Actuary.
- C. Annual debt service, including coverage ratio [3], is approximately \$23.0 mm for 20 year financing or \$20.0 mm for 30 year financing.
- D. Currently \$4.5 mm of annual debt service is budgeted between the water and sewer fund.
- E. The difference between new debt service and existing debt service, which totals \$18.5 mm (20 year) or \$15.5 mm (30 year), would need to be funded by an immediate sewer and water increase.
- F. This results in an approximate immediate current rate increase of 92% (20 year financing) or 77% (30 year financing) for Allentown residents.
- G. Does not factor in any future required increases to maintain systems, which has historically averaged near 5% annually.
- H. The City's General Fund could continue to realize Interfund transfer and general city charges of approximately \$5 mm.
- I. The Sewer/Water Authority would immediately have approximately \$190 mm of debt on the books (\$220 mm - \$30 mm)
- J. Assumes completion in Spring 2013

	20 Year	30 Year
	<i>(\$ millions)</i>	<i>(\$ millions)</i>
<i>Fund unfunded liability</i>	\$158.0	\$158.0
<i>Defease water & sewer debt</i>	\$35.0	\$35.0
<i>Fund DSRF at MADS</i>	\$20.0	\$17.4
<i>Fund working capital reserve</i>	\$2.0	\$2.0
<i>Costs of issuance</i>	\$4.5	\$4.5
Total	\$219.5	\$216.9

Notes: [1] Assumes approximate valuation of assets matches financed amount
 [2] Will need a Revenue Ruling and ultimately an unqualified Bond Counsel opinion to be able to issue as tax-exempt
 [3] Assumes a 1.15x coverage ratio



Option 5 – Sell the Water and Sewer systems to a new Allentown Authority – Assumptions (continued)

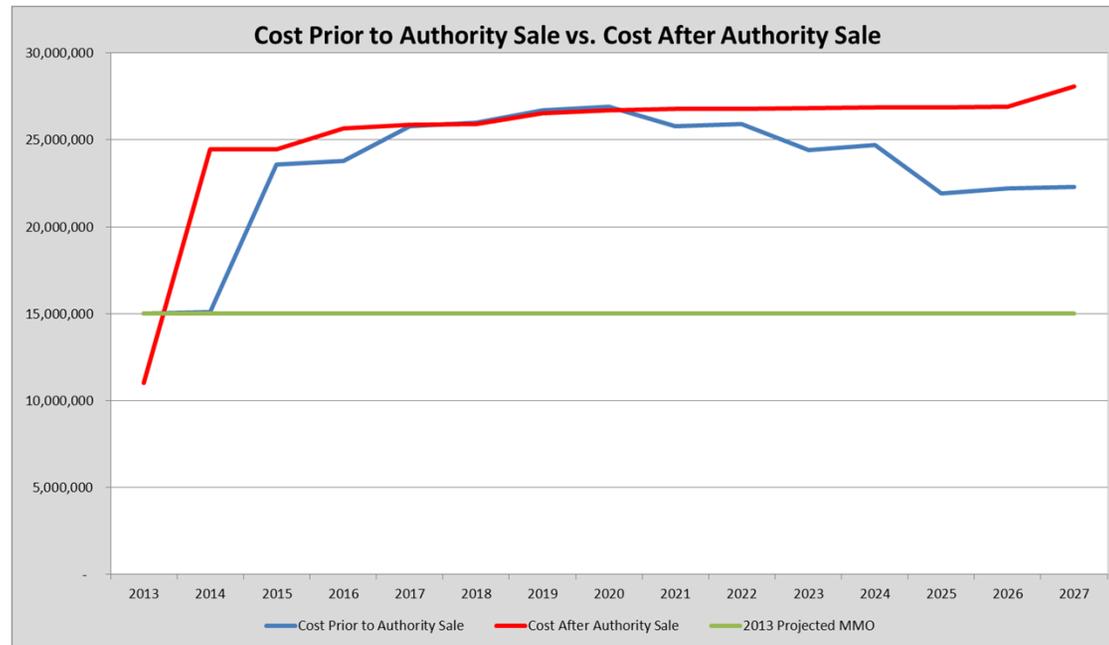
1. Other Considerations:
 - A. Substantial reduction of unfunded liability and reduction in projected annual MMO. Assumes only normal cost of MMO continuing under current actuarial assumptions.
 - B. City real estate millage rates should be able to remain constant at current levels (not taking into account Countywide reassessment)
 - C. Sewer and water rates will need to significantly increase immediately to fund debt service on Authority's bond issue.
 - D. Existing 2004 POB's remain outstanding
 - E. Act 205 EIT may be eliminated



Option 5 – Sell the Water and Sewer systems to a new Allentown Authority – Net Impact

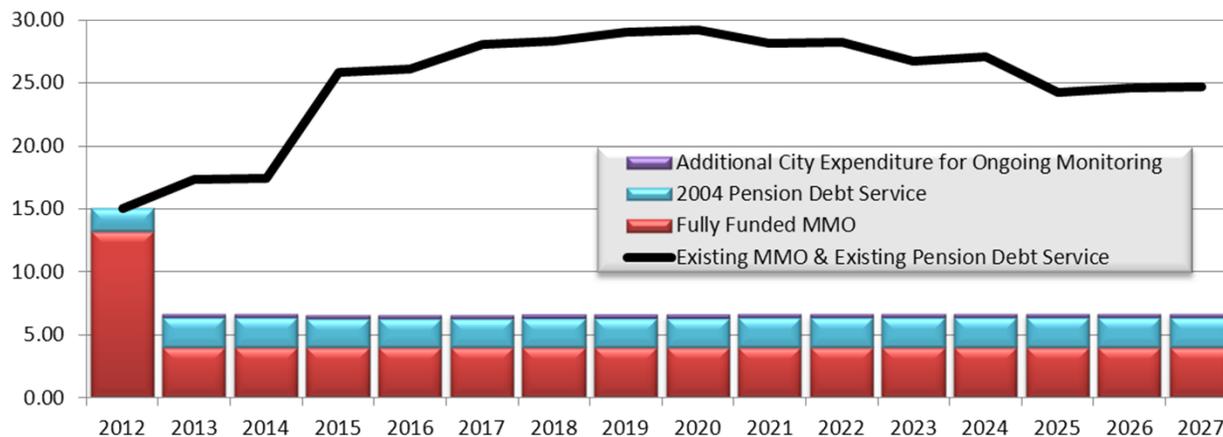
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Cost Prior to Authority Sale															
Projected MMO	15,000,000	15,100,000	23,600,000	23,800,000	25,800,000	26,000,000	26,700,000	26,900,000	25,800,000	25,900,000	24,400,000	24,700,000	21,900,000	22,200,000	22,300,000
Net Impact															
Projected MMO	15,000,000	15,100,000	23,600,000	23,800,000	25,800,000	26,000,000	26,700,000	26,900,000	25,800,000	25,900,000	24,400,000	24,700,000	21,900,000	22,200,000	22,300,000
Reduced MMO	(11,000,000)	(11,100,000)	(19,600,000)	(19,800,000)	(21,800,000)	(22,000,000)	(22,700,000)	(22,900,000)	(21,800,000)	(21,900,000)	(20,400,000)	(20,700,000)	(17,900,000)	(18,200,000)	(18,300,000)
Net MMO	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000
Increased Debt Service*	4,999,694	18,409,782	18,382,146	19,578,553	19,761,610	19,765,511	20,329,965	20,468,429	20,522,881	20,487,056	20,486,664	20,485,029	20,486,328	20,488,088	21,581,049
Authority Admin	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000
Loss of Act 511 EIT (1)	(1,500,000)	(1,530,000)	(1,560,600)	(1,591,812)	(1,623,648)	(1,656,121)	(1,689,244)	(1,723,029)	(1,757,489)	(1,792,639)	(1,828,492)	(1,865,061)	(1,902,363)	(1,940,410)	(1,979,218)
Cost After Authority Sale	10,999,694	24,439,782	24,442,746	25,670,365	25,885,258	25,921,632	26,519,209	26,691,458	26,780,370	26,779,695	26,815,156	26,850,090	26,888,691	26,928,498	28,060,267
Difference	4,000,306	(9,339,782)	(842,746)	(1,870,365)	(85,258)	78,368	180,791	208,542	(980,370)	(879,695)	(2,415,156)	(2,150,090)	(4,988,691)	(4,728,498)	(5,760,267)
Difference Breakdown															
Current Budget Relief	4,000,306	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Need for tax increases(2)	-	9,439,782	9,442,746	10,670,365	10,885,258	10,921,632	11,519,209	11,691,458	11,780,370	11,779,695	11,815,156	11,850,090	11,888,691	11,928,498	13,060,267

*For these purposes, assumes a 30-year bond issue.
 (1) For these purposes, assumes 2% growth rate assumptions.
 (2) Compares cost after Authority Sale to 2013 Projected MMO.



Option 6 – Enter into a concession/lease agreement related to the Water and Sewer systems

1. The City enters into a concession/lease agreement with a private or public operator related to the City's Water and Sewer systems
2. The City would receive upfront and ongoing proceeds from private operator
 - A. Upfront proceeds would be used to reduce the City's unfunded pension liability and to payoff outstanding Water and Sewer debt
3. The City would retain ownership of the Water and Sewer systems
4. Conclusion:
 - A. The City could substantially reduce the unfunded pension liability, resulting in a reduced annual MMO cost
 - B. Debt service related to outstanding Water and Sewer debt would be eliminated
 - C. The operation, maintenance, and future rate increases of the Water and Sewer systems would be subject to the Concession/Lease agreement and/or PUC control



Option 6 – Enter into a concession/lease agreement related to the Water and Sewer systems - Assumptions

1. Assumptions:

- A. City receives \$197.5mm of upfront proceeds
- B. The \$4.5 mm of annual debt service requirements in the Sewer/Water Fund would be eliminated.
- C. The City's General Fund will continue to realize an approximate amount equivalent to the interfund transfers and general fund city charges from the Concession Agreement through a royalty.
- D. City General Fund expenses may increase by approximately \$300,000 to fund ongoing monitoring.

Funds are illustrated to be used in the following manner:

	<i>(\$ millions)</i>
<i>Fund unfunded liability</i>	\$158.0
<i>Defease water & sewer debt</i>	\$35.0
<i>Costs</i>	\$4.5
<i>Total</i>	\$197.5

2. Conclusions:

- A. Substantial reduction of unfunded liability and reduction in projected annual MMO. Assumes only the normal cost of the MMO under current actuarial assumptions.
- B. City real estate millage rates should be able to remain constant at current levels (not taking into account Countywide reassessment)
- C. Sewer and water rates will remain constant in the short term based on proposed provisions in the Concession Agreement. Long term impact on sewer and water rates will be driven by PUC or Concession Agreement.
- D. Existing 2004 POB's remain outstanding
- E. Act 205 EIT may be eliminated



Option 7 – Sell or enter into a concession/lease agreement on other City assets

1. In addition to the Water and Sewer systems, the City could consider a sale or concession/lease arrangement on other City assets.
 - A. Two City assets were analyzed as potential solutions to the City's challenges:
 - a. Golf course
 - b. Parking Authority
2. Conclusion:
 - A. Neither asset generated enough revenue to produce a long-term solution to the City's financial challenges



Fiscal Impact of Concession/Lease Agreement



Overview of Concession/Lease Process

1. To ensure the City selects a long-term partner to maintain and operate City's Water and Sewer assets, the following procurement process is being utilized:
 - A. Initial Request for Qualifications to determined operational and financial ability
 - B. Selection of Pre-qualified bidders
 - C. City drafts Operating Standards requirements
 - D. City drafts Concession and Lease Agreements to outline requirements of partnership with winning bidder
 - E. One on one meetings with pre-qualified bidders to provide tour of City assets and give the City an opportunity to ask questions and interview each firm
 - F. Release Request for Proposal with final terms and conditions
 - G. Selection of winning bidder based on most favorable proposal



Financial Impact of Concession/Lease

1. If the City would proceed with the Concession and Lease Agreement, the following impacts would occur:
 - A. The City's General Fund would incur a loss of revenue with no offsetting expenditure reduction
 1. Interfund transfers: \$100,000 from Water, \$100,000 from Sewer
 2. General City charges: \$2,100,000 from Water, \$1,900,000 from Sewer
 - B. The City's General Fund will also be responsible for absorbing the following annual expenses from enterprise funds
 1. \$2,980,000 from Water (includes PW Director, Engineering, Watershed, Fish Hatchery)
 2. \$1,890,000 from Sewer (includes PW Director, GIS, Engineering, Stormwater)

Loss of Revenue			
	Water	Sewer	Total
Interfund Transfers	\$ 100,000	\$ 100,000	\$ 200,000
General City Charges	\$ 2,125,325	\$ 1,889,021	\$ 4,014,346
	\$ 2,225,325	\$ 1,989,021	\$ 4,214,346
Increased Expenditures			
	Water	Sewer	Total
Public Works Director	\$ 9,053	\$ 27,319	\$ 36,372
Engineering	\$ 394,000	\$ 1,122,615	\$ 1,516,615
GIS	\$ -	\$ 625,754	\$ 625,754
Watershed	\$ 2,487,000	\$ -	\$ 2,487,000
Fish Hatchery	\$ 93,787	\$ -	\$ 93,787
Stormwater	\$ -	\$ 115,045	\$ 115,045
Total	\$ 2,983,840	\$ 1,890,733	\$ 4,874,573

Note: The City may also need to hire additional employees for plowing, storm sewer system maintenance. The new annual cost may be approximately \$1,000,000. However, the City may receive BP tax near \$1,000,000 from Concessionaire. Also Act 205 EIT may be eliminated which totals approximately \$2,900,000. It is assumed that on average, approximately \$1,500,000 would go into GF to pay MMO and the balance would be contributed to the pension fund.



Water and Sewer System Valuations

1. AUS Consultants, an Independent Engineering and Consulting firm, has valued the Water and Sewer systems. Preliminary valuation reflected a weighted approach, including the cost, income, and market comparables methodologies.
2. In addition to many other assumptions, the preliminary valuation included the following ongoing assumptions:
 - A. Costs related to Interfund Transfers will continue from both the Water and Sewer funds at current levels, growing at inflation
 - B. Costs related to General City Charges will continue from both the Water and Sewer funds at approximately 45%-50% of current levels, growing at inflation
 - C. Costs related to current Water and Sewer and estimated future debt obligations continue to be paid
3. Preliminary combined values range from \$135mm - \$164mm (these values reflect a net value, or after all Water and Sewer debt obligations have been paid, gross values would be approximately \$170mm - \$199mm).
 - A. Valuation does not include Accounts Receivables, Rolling Stock, Existing Fund Balance, and other misc items.



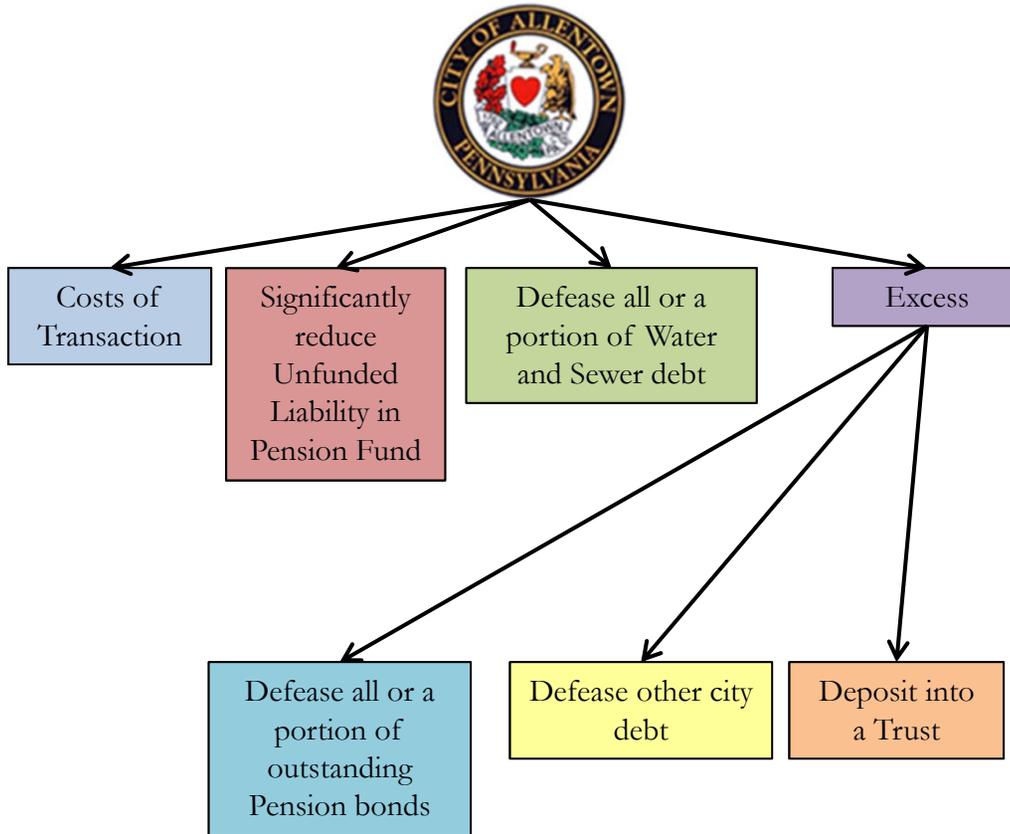
Considerations available to the City

1. **Consideration 1** - As noted on page 19, the City will now be responsible for absorbing expenses that have historically been funded through the Water and Sewer operations
 - A. How will the City handle the increased expenditure?
 1. All of the absorbed costs were included in the preliminary valuation by AUS Consultants. Therefore, the value of the system, based on the income methodology approach, should conservatively increase between \$50mm - \$65mm (modeled independently by PFM) since the potential concessionaire will not be responsible for those respective expenditures.
 2. The increased value can be invested or realized in different ways to help offset the absorption of those related expenses by the City's General Fund through a Trust Fund or something similar.
2. **Consideration 2** - As noted on page 19, all or a portion of the potential Loss of Revenue were factored in the preliminary valuation from AUS Consultants
 - A. How will the City handle the loss of revenue?
 1. The City will draft the Concession and Lease Agreement such that the equivalent amount of the Interfund Transfers and General City Charges will continue to be received by the City through a royalty payment.

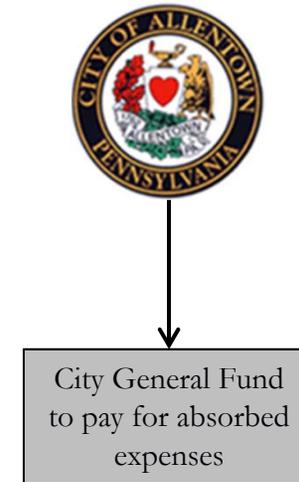


Summary – Illustration of Flow of Funds

Flow of Funds – Initial Deposit*



Flow of Funds – Ongoing Royalty Deposit*



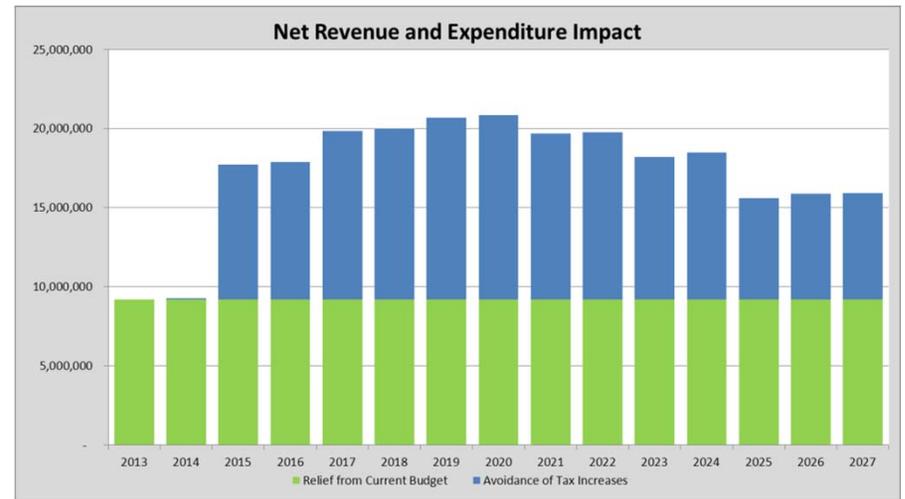
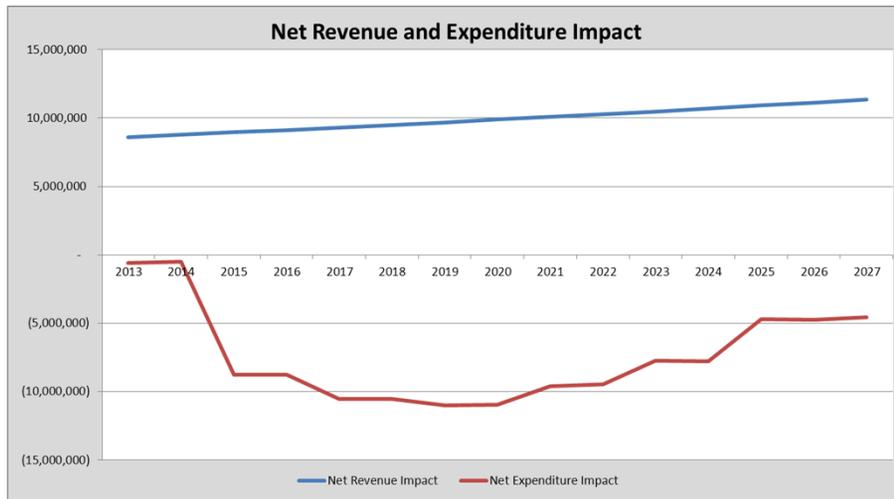
*Actual allocation of funds can not be determined until bids are received and final amount is known.



Concession/Lease Agreement Impact to the City's General Fund

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Revenue Impact															
Annual Royalty Fee	4,200,000	4,284,000	4,369,680	4,457,074	4,546,215	4,637,139	4,729,882	4,824,480	4,920,969	5,019,389	5,119,777	5,222,172	5,326,616	5,433,148	5,541,811
Added Valuation	4,900,000	4,998,000	5,097,960	5,199,919	5,303,918	5,409,996	5,518,196	5,628,560	5,741,131	5,855,954	5,973,073	6,092,534	6,214,385	6,338,672	6,465,446
Business Privilege Tax	1,000,000	1,020,000	1,040,400	1,061,208	1,082,432	1,104,081	1,126,162	1,148,686	1,171,659	1,195,093	1,218,994	1,243,374	1,268,242	1,293,607	1,319,479
Act 205 EIT	(1,500,000)	(1,530,000)	(1,560,600)	(1,591,812)	(1,623,648)	(1,656,121)	(1,689,244)	(1,723,029)	(1,757,489)	(1,792,639)	(1,828,492)	(1,865,061)	(1,902,363)	(1,940,410)	(1,979,218)
Total	8,600,000	8,772,000	8,947,440	9,126,389	9,308,917	9,495,095	9,684,997	9,878,697	10,076,271	10,277,796	10,483,352	10,693,019	10,906,879	11,125,017	11,347,517
Expenditure Impact															
General City Charges and															
Interfund Transfers	4,200,000	4,284,000	4,369,680	4,457,074	4,546,215	4,637,139	4,729,882	4,824,480	4,920,969	5,019,389	5,119,777	5,222,172	5,326,616	5,433,148	5,541,811
Absorbed Expenses	4,900,000	4,998,000	5,097,960	5,199,919	5,303,918	5,409,996	5,518,196	5,628,560	5,741,131	5,855,954	5,973,073	6,092,534	6,214,385	6,338,672	6,465,446
New Employees	1,300,000	1,326,000	1,352,520	1,379,570	1,407,162	1,435,305	1,464,011	1,493,291	1,523,157	1,553,620	1,584,693	1,616,387	1,648,714	1,681,689	1,715,322
Reduced MMO	(11,000,000)	(11,100,000)	(19,600,000)	(19,800,000)	(21,800,000)	(22,000,000)	(22,700,000)	(22,900,000)	(21,800,000)	(21,900,000)	(20,400,000)	(20,700,000)	(17,900,000)	(18,200,000)	(18,300,000)
Total	(600,000)	(492,000)	(8,779,840)	(8,763,437)	(10,542,706)	(10,517,560)	(10,987,911)	(10,953,669)	(9,614,742)	(9,471,037)	(7,722,458)	(7,768,907)	(4,710,285)	(4,746,491)	(4,577,421)
Difference	9,200,000	9,264,000	17,727,280	17,889,826	19,851,622	20,012,655	20,672,908	20,832,366	19,691,013	19,748,833	18,205,810	18,461,926	15,617,165	15,871,508	15,924,938
Difference Breakdown															
Current Budget Relief	9,200,000	9,200,000	9,200,000	9,200,000	9,200,000	9,200,000	9,200,000	9,200,000	9,200,000	9,200,000	9,200,000	9,200,000	9,200,000	9,200,000	9,200,000
Avoidance of tax increases	-	64,000	8,527,280	8,689,826	10,651,622	10,812,655	11,472,908	11,632,366	10,491,013	10,548,833	9,005,810	9,261,926	6,417,165	6,671,508	6,724,938
Total	9,200,000	9,264,000	17,727,280	17,889,826	19,851,622	20,012,655	20,672,908	20,832,366	19,691,013	19,748,833	18,205,810	18,461,926	15,617,165	15,871,508	15,924,938

Note: For these purposes, assumes 2% growth rate assumptions.



Summary of Concession/Lease Agreement

1. In summary, the City's General Fund has historically received approximately \$4.2mm of revenue annually from the Water and Sewer funds which will be addressed by a royalty payment.
2. The City's General Fund will also now be responsible to absorb \$4.9mm of expenditures annually from costs that have been historically paid from the Water and Sewer Funds. This will be fiscally addressed through a potentially increased bid (assumed from the income valuation approach only).
 - Below are two hypothetical examples of the upfront and ongoing financial benefit to the City provided by the competitive procurement of the Concession and Lease Agreement

	Option 1	Option 2
Ongoing Benefit \$	9,088,919	\$ 4,214,346
Upfront Benefit*	\$170mm - \$199mm	\$215mm - \$255mm

*For these purposes, estimated valuation is based purely on the income valuation approach (derived from PFM's model) and reflect gross values (i.e. prior to payer Water and Sewer debt obligations). Actual value will be reflected in gross bid price from prospective bidders during the competitive procurement process. PUC rate regulation (if applicable) may also impact this as well.



Conclusion

1. Various alternatives have been analyzed by the team to address the current fiscal challenges
 - A. Some options are not legally or financially viable
 - B. The City has previously issued POBs which has an unsuccessful record to date
 - C. Many of the alternatives result in a substantial amount of new debt and ongoing annual debt service
2. There will be future fiscal challenges on City's horizon
 - A. OPEB liability/healthcare for retirees
 - a. Currently over a \$50mm liability
 - B. Uncertainty in treatment of calculating MMOs for pensions
 - a. May use lower discount rate which will increase unfunded liability
 - C. Future legislation may impose budgetary restrictions on how/if the City's General Fund can use Water and Sewer revenues to assist in balancing its budget
 - D. Others?
3. City is requesting to release RFP to continue the process with the Concession/Lease agreement to allow the competitive process to work its course
 - A. Operating standards manual being drafted to operate and maintain systems better than current trends
 - B. If bid amount or other bid parameters do not conform, the process stops
 - C. If bid amount and other bid parameters are met, the process continues with Concession/Lease agreement
 - D. Some of the other options analyzed will then be reconsidered for the other future fiscal challenges
 - E. Council and the Administration will put forward various charter amendments and policies to significantly mitigate or eliminate the ability to repeat prior actions that put the City in this situation



Appendix



Water and Sewer 2012 Budget

Revenues	Water	Sewer	Expenditures	Water	Sewer
Metered Sales	12,800,000	7,700,000	Permanent Wages	3,938,857	4,957,018
Penalties and Interest	200,000	125,000	Temporary Wages	132,640	17,981
Signatories	-	7,525,000	Premium Pay	375,300	347,920
Special Sewer Charges	-	160,000	Shift Differential	18,675	28,370
Industrial Waste Surcharges	-	30,000	FICA	340,767	409,374
Fire Hydrant Standby Charges	70,000	-	Pension	195,452	439,710
Septage Disposal Fees	-	100,000	Insurance - Employee Group	1,100,895	1,299,674
Leachate Treatment	-	650,000	Electric Power	743,050	982,775
Tapping Fee	30,000	30,000	Telephone	2,000	-
Other Water Sales	2,250,000	-	Postage and Stamping	1,250	2,600
Gain/Loss on Disposal of Fixed Assets	-	-	Printing	23,750	5,725
Interest Income	-	-	Mileage Reimbursement	-	132
Miscellaneous	62,643	86,500	Rentals	55,300	82,820
State Aid for Pension	49,961	112,397	Publications and Memberships	10,000	6,550
			Training and Professional Development	17,000	27,902
Total Revenues	15,462,604	16,518,897	Repairs and Maintenance	114,750	304,487
			Professional Service Fees	-	-
			Contract/Service Fees	382,100	1,153,439
			Other Services and Charges	4,200	9,673
			Repair and Maintenance Supplies	308,200	440,975
			Uniforms	15,700	11,082
			Office Supplies	-	-
			Fuels, Oils, Lubricants	286,818	377,175
			Pipe and Fittings	407,000	280,069
			Chemicals	521,000	490,885
			Operating Material and Supplies	78,500	61,300
			Equipment	402,500	325,800
			Construction Contracts	20,000	15,000
			Capital Fund Contribution	500,000	363,000
			General City Charges	2,131,126	1,895,741
			Interfund Transfers	485,000	485,000
			Refunds	8,000	6,000
			Minimum Charge Rebates	3,000	3,000
			Debt Principal	2,915,829	1,310,000
			Interest Expense	612,818	507,998
			Total Expenditures	16,151,477	16,649,175
			Difference	(688,873)	(130,278)



Disclosure

The foregoing presentation must be read together with the oral presentation that accompanied it. The presentation is a discussion of a potential options and is subject to the following limitations:

1. Projections and Estimates – All statements as to what will or may happen under certain circumstances are based on assumptions, some but not all of which are noted in the presentation. Assumptions may or may not be proven correct as actual events occur, and results will depend upon events outside of your or our control. Changes in assumptions may have a material impact on results. Estimates and projections represent our judgment as of this date and are subject to change without notice. There can be no assurance that estimated returns and results will not be materially different in the context of an actual transaction over time. Past performance does not necessarily reflect and is not a guarantee of future results.
2. General Disclaimer – Public Financial Management, Inc. disclaims all liability relating to the information contained in this presentation. Opinions expressed in the presentation are current opinions only and are subject to change without notice.
3. Actuarial Assumptions – Actuarial calculations as provided by the City’s Actuary are based on current calculation methodologies and are subject to change in the future. Future methodology changes to actuarial calculations may materially impact the numbers contained herein.

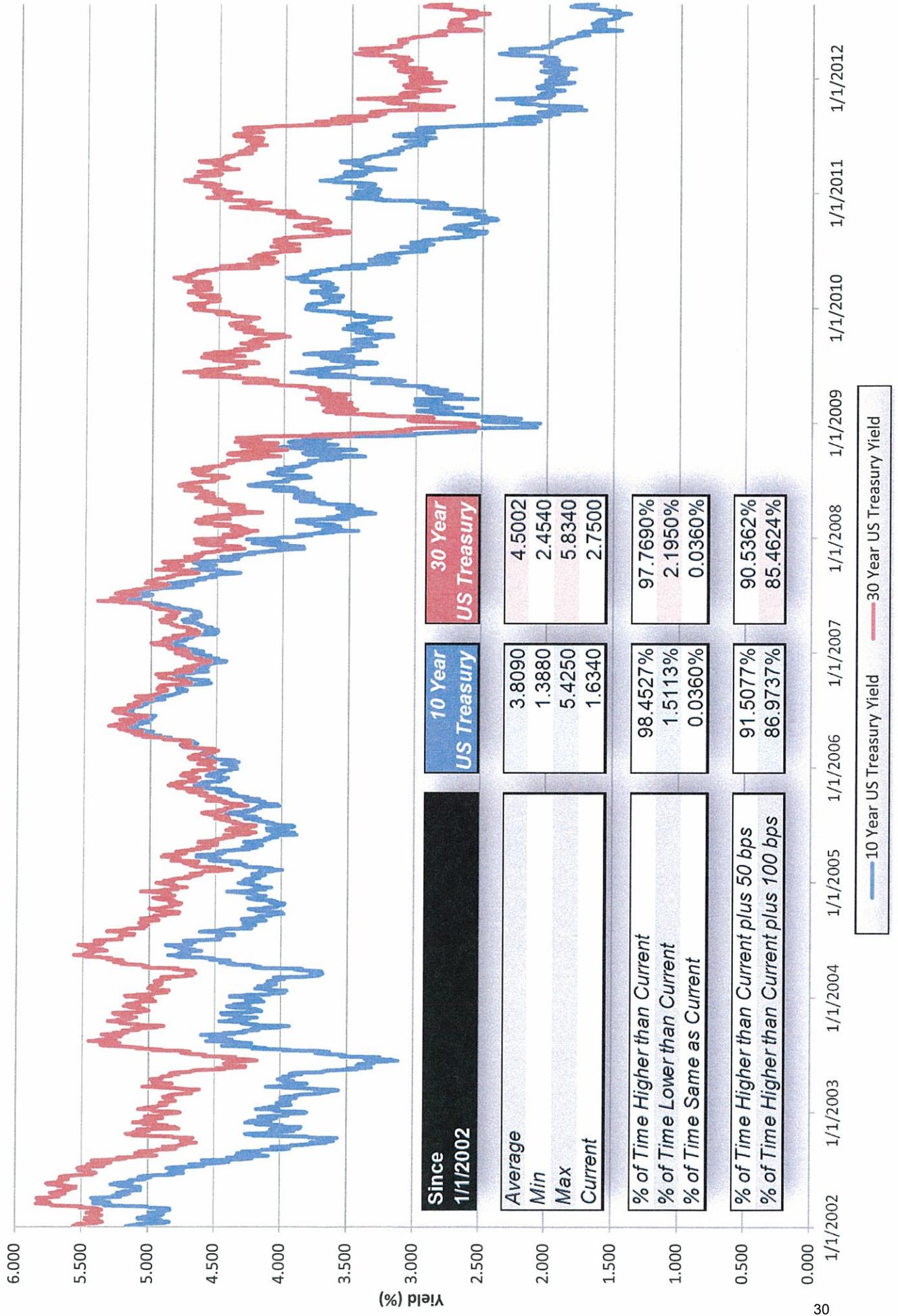




Historical Interest Rate Chart

10 Year vs. 30 Year US Treasury Yields

1/1/2002 - 8/24/2012





Option 4 Backup Schedules

ESTIMATED AMORTIZATION SCHEDULES

20 Year Taxable
Option 4

Settle
Dated 5/15/2013
5/15/2013

1	2	3	4	5	6	7	8
<u>Date</u>	<u>Principal</u>	<u>Estimated Taxable Rate</u>	<u>Interest</u>	<u>Semi-Annual Debt Service</u>	<u>Estimated Fiscal Year Debt Service</u>	<u>Debt Service Coverage Requirement</u> 1.00x	<u>Total Debt Service Requirement</u>
11/15/2013			5,325,793.50	5,325,793.50	5,325,793.50		5,325,793.50
5/15/2014	4,130,000	6.070	5,325,793.50	9,455,793.50			
11/15/2014			5,200,448.00	5,200,448.00	14,656,241.50		14,656,241.50
5/15/2015	4,390,000	6.070	5,200,448.00	9,590,448.00			
11/15/2015			5,067,211.50	5,067,211.50	14,657,659.50		14,657,659.50
5/15/2016	4,665,000	6.070	5,067,211.50	9,732,211.50			
11/15/2016			4,925,628.75	4,925,628.75	14,657,840.25		14,657,840.25
5/15/2017	4,955,000	6.070	4,925,628.75	9,880,628.75			
11/15/2017			4,775,244.50	4,775,244.50	14,655,873.25		14,655,873.25
5/15/2018	5,265,000	6.070	4,775,244.50	10,040,244.50			
11/15/2018			4,615,451.75	4,615,451.75	14,655,696.25		14,655,696.25
5/15/2019	5,595,000	6.070	4,615,451.75	10,210,451.75			
11/15/2019			4,445,643.50	4,445,643.50	14,656,095.25		14,656,095.25
5/15/2020	5,945,000	6.070	4,445,643.50	10,390,643.50			
11/15/2020			4,265,212.75	4,265,212.75	14,655,856.25		14,655,856.25
5/15/2021	6,315,000	6.070	4,265,212.75	10,580,212.75			
11/15/2021			4,073,552.50	4,073,552.50	14,653,765.25		14,653,765.25
5/15/2022	6,715,000	6.070	4,073,552.50	10,788,552.50			
11/15/2022			3,869,752.25	3,869,752.25	14,658,304.75		14,658,304.75
5/15/2023	7,135,000	6.070	3,869,752.25	11,004,752.25			
11/15/2023			3,653,205.00	3,653,205.00	14,657,957.25		14,657,957.25
5/15/2024	7,610,000	6.900	3,653,205.00	11,263,205.00			
11/15/2024			3,390,660.00	3,390,660.00	14,653,865.00		14,653,865.00
5/15/2025	8,155,000	6.900	3,390,660.00	11,545,660.00			
11/15/2025			3,109,312.50	3,109,312.50	14,654,972.50		14,654,972.50
5/15/2026	8,740,000	6.900	3,109,312.50	11,849,312.50			
11/15/2026			2,807,782.50	2,807,782.50	14,657,095.00		14,657,095.00
5/15/2027	9,365,000	6.900	2,807,782.50	12,172,782.50			
11/15/2027			2,484,690.00	2,484,690.00	14,657,472.50		14,657,472.50
5/15/2028	10,030,000	6.900	2,484,690.00	12,514,690.00			
11/15/2028			2,138,655.00	2,138,655.00	14,653,345.00		14,653,345.00
5/15/2029	10,750,000	6.900	2,138,655.00	12,888,655.00			
11/15/2029			1,767,780.00	1,767,780.00	14,656,435.00		14,656,435.00
5/15/2030	11,515,000	6.900	1,767,780.00	13,282,780.00			
11/15/2030			1,370,512.50	1,370,512.50	14,653,292.50		14,653,292.50
5/15/2031	12,340,000	6.900	1,370,512.50	13,710,512.50			
11/15/2031			944,782.50	944,782.50	14,655,295.00		14,655,295.00
5/15/2032	13,220,000	6.900	944,782.50	14,164,782.50			
11/15/2032			488,692.50	488,692.50	14,653,475.00		14,653,475.00
5/15/2033	14,165,000	6.900	488,692.50	14,653,692.50			
11/15/2033					14,653,692.50		14,653,692.50
TOTALS	161,000,000		137,440,023.00	298,440,023.00	298,440,023.00	0.00	298,440,023.00

ESTIMATED AMORTIZATION SCHEDULES

20 Year Taxable

SOURCES AND USES OF FUNDS**SOURCES:**

Bond Proceeds	161,000,000.00
Accrued Interest	0.00
Total	<u>161,000,000.00</u>

USES:

Unfunded Liability	158,000,000.00	<i>Estimated</i>
Underwriter's Discount	966,000.00	<i>Estimated</i>
Estimated Costs of Issuance	2,030,000.00	<i>Estimated</i>
Miscellaneous Expenses/Rounding	4,000.00	
Total	<u>161,000,000.00</u>	

Dated Date 5/15/2013

Settlement Date 5/15/2013

Yield of the Issue 6.732285

ESTIMATED AMORTIZATION SCHEDULES

30 Year Taxable
Option 4

Settle 5/15/2013
Dated 5/15/2013

1	2	3	4	5	6	7	8
Date	Principal	Estimated Taxable Rate	Interest	Semi-Annual Debt Service	Estimated Fiscal Year Debt Service	Debt Service Coverage Requirement 1.00x	Total Debt Service Requirement
11/15/2013			5,585,193.50	5,585,193.50	5,585,193.50		5,585,193.50
5/15/2014	1,770,000	6.070	5,585,193.50	7,355,193.50			
11/15/2014			5,531,474.00	5,531,474.00	12,886,667.50		12,886,667.50
5/15/2015	1,880,000	6.070	5,531,474.00	7,411,474.00			
11/15/2015			5,474,416.00	5,474,416.00	12,885,890.00		12,885,890.00
5/15/2016	2,000,000	6.070	5,474,416.00	7,474,416.00			
11/15/2016			5,413,716.00	5,413,716.00	12,888,132.00		12,888,132.00
5/15/2017	2,125,000	6.070	5,413,716.00	7,538,716.00			
11/15/2017			5,349,222.25	5,349,222.25	12,887,938.25		12,887,938.25
5/15/2018	2,255,000	6.070	5,349,222.25	7,604,222.25			
11/15/2018			5,280,783.00	5,280,783.00	12,885,005.25		12,885,005.25
5/15/2019	2,400,000	6.070	5,280,783.00	7,680,783.00			
11/15/2019			5,207,943.00	5,207,943.00	12,888,726.00		12,888,726.00
5/15/2020	2,550,000	6.070	5,207,943.00	7,757,943.00			
11/15/2020			5,130,550.50	5,130,550.50	12,888,493.50		12,888,493.50
5/15/2021	2,710,000	6.070	5,130,550.50	7,840,550.50			
11/15/2021			5,048,302.00	5,048,302.00	12,888,852.50		12,888,852.50
5/15/2022	2,880,000	6.070	5,048,302.00	7,928,302.00			
11/15/2022			4,960,894.00	4,960,894.00	12,889,196.00		12,889,196.00
5/15/2023	3,060,000	6.070	4,960,894.00	8,020,894.00			
11/15/2023			4,868,023.00	4,868,023.00	12,888,917.00		12,888,917.00
5/15/2024	3,265,000	6.900	4,868,023.00	8,133,023.00			
11/15/2024			4,755,380.50	4,755,380.50	12,888,403.50		12,888,403.50
5/15/2025	3,495,000	6.900	4,755,380.50	8,250,380.50			
11/15/2025			4,634,803.00	4,634,803.00	12,885,183.50		12,885,183.50
5/15/2026	3,745,000	6.900	4,634,803.00	8,379,803.00			
11/15/2026			4,505,600.50	4,505,600.50	12,885,403.50		12,885,403.50
5/15/2027	4,015,000	6.900	4,505,600.50	8,520,600.50			
11/15/2027			4,367,083.00	4,367,083.00	12,887,683.50		12,887,683.50
5/15/2028	4,300,000	6.900	4,367,083.00	8,667,083.00			
11/15/2028			4,218,733.00	4,218,733.00	12,885,816.00		12,885,816.00
5/15/2029	4,610,000	6.900	4,218,733.00	8,828,733.00			
11/15/2029			4,059,688.00	4,059,688.00	12,888,421.00		12,888,421.00
5/15/2030	4,935,000	6.900	4,059,688.00	8,994,688.00			
11/15/2030			3,889,430.50	3,889,430.50	12,884,118.50		12,884,118.50
5/15/2031	5,290,000	6.900	3,889,430.50	9,179,430.50			
11/15/2031			3,706,925.50	3,706,925.50	12,886,356.00		12,886,356.00
5/15/2032	5,670,000	6.900	3,706,925.50	9,376,925.50			
11/15/2032			3,511,310.50	3,511,310.50	12,888,236.00		12,888,236.00
5/15/2033	6,075,000	6.900	3,511,310.50	9,586,310.50			
11/15/2033			3,301,723.00	3,301,723.00	12,888,033.50		12,888,033.50
5/15/2034	6,515,000	7.180	3,301,723.00	9,816,723.00			
11/15/2034			3,067,834.50	3,067,834.50	12,884,557.50		12,884,557.50
5/15/2035	7,000,000	7.180	3,067,834.50	10,067,834.50			
11/15/2035			2,816,534.50	2,816,534.50	12,884,369.00		12,884,369.00
5/15/2036	7,525,000	7.180	2,816,534.50	10,341,534.50			
11/15/2036			2,546,387.00	2,546,387.00	12,887,921.50		12,887,921.50
5/15/2037	8,085,000	7.180	2,546,387.00	10,631,387.00			
11/15/2037			2,256,135.50	2,256,135.50	12,887,522.50		12,887,522.50
5/15/2038	8,685,000	7.180	2,256,135.50	10,941,135.50			
11/15/2038			1,944,344.00	1,944,344.00	12,885,479.50		12,885,479.50
5/15/2039	9,335,000	7.180	1,944,344.00	11,279,344.00			
11/15/2039			1,609,217.50	1,609,217.50	12,888,561.50		12,888,561.50
5/15/2040	10,030,000	7.180	1,609,217.50	11,639,217.50			
11/15/2040			1,249,140.50	1,249,140.50	12,888,358.00		12,888,358.00
5/15/2041	10,775,000	7.180	1,249,140.50	12,024,140.50			
11/15/2041			862,318.00	862,318.00	12,886,458.50		12,886,458.50
5/15/2042	11,580,000	7.180	862,318.00	12,442,318.00			
11/15/2042			446,596.00	446,596.00	12,888,914.00		12,888,914.00
5/15/2043	12,440,000	7.180	446,596.00	12,886,596.00			
11/15/2043					12,886,596.00		12,886,596.00
TOTALS	161,000,000		231,199,404.50	392,199,404.50	392,199,404.50	0.00	392,199,404.50

ESTIMATED AMORTIZATION SCHEDULES 30 Year Taxable SOURCES AND USES OF FUNDS

SOURCES:

Bond Proceeds	161,000,000.00
Accrued Interest	0.00
Total	<u>161,000,000.00</u>

USES:

Unfunded Liability	158,000,000.00	<i>Estimated</i>
Underwriter's Discount	966,000.00	<i>Estimated</i>
Estimated Costs of Issuance	2,030,000.00	<i>Estimated</i>
Miscellaneous Expenses/Rounding	4,000.00	
Total	<u>161,000,000.00</u>	

Dated Date 5/15/2013

Settlement Date 5/15/2013

Yield of the Issue	7.031354
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Option 5 Backup Schedules

ESTIMATED AMORTIZATION SCHEDULES

20 Year Taxable
Option 5

Settle
Dated 5/15/2013
5/15/2013

1	2	3	4	5	6	7	8
<u>Date</u>	<u>Principal</u>	<u>Estimated Taxable Rate</u>	<u>Interest</u>	<u>Semi-Annual Debt Service</u>	<u>Estimated Fiscal Year Debt Service</u>	<u>Debt Service Coverage Requirement</u> 1.15x	<u>Total Debt Service Requirement</u>
11/15/2013			7,939,139.75	7,939,139.75	7,939,139.75	1,190,870.96	9,130,010.71
5/15/2014	6,155,000	6.070	7,939,139.75	14,094,139.75			
11/15/2014			7,752,335.50	7,752,335.50	21,846,475.25	3,276,971.29	25,123,446.54
5/15/2015	6,540,000	6.070	7,752,335.50	14,292,335.50			
11/15/2015			7,553,846.50	7,553,846.50	21,846,182.00	3,276,927.30	25,123,109.30
5/15/2016	6,950,000	6.070	7,553,846.50	14,503,846.50			
11/15/2016			7,342,914.00	7,342,914.00	21,846,760.50	3,277,014.08	25,123,774.58
5/15/2017	7,385,000	6.070	7,342,914.00	14,727,914.00			
11/15/2017			7,118,779.25	7,118,779.25	21,846,693.25	3,277,003.99	25,123,697.24
5/15/2018	7,850,000	6.070	7,118,779.25	14,968,779.25			
11/15/2018			6,880,531.75	6,880,531.75	21,849,311.00	3,277,396.65	25,126,707.65
5/15/2019	8,340,000	6.070	6,880,531.75	15,220,531.75			
11/15/2019			6,627,412.75	6,627,412.75	21,847,944.50	3,277,191.68	25,125,136.18
5/15/2020	8,860,000	6.070	6,627,412.75	15,487,412.75			
11/15/2020			6,358,511.75	6,358,511.75	21,845,924.50	3,276,888.68	25,122,813.18
5/15/2021	9,415,000	6.070	6,358,511.75	15,773,511.75			
11/15/2021			6,072,766.50	6,072,766.50	21,846,278.25	3,276,941.74	25,123,219.99
5/15/2022	10,005,000	6.070	6,072,766.50	16,077,766.50			
11/15/2022			5,769,114.75	5,769,114.75	21,846,881.25	3,277,032.19	25,123,913.44
5/15/2023	10,635,000	6.070	5,769,114.75	16,404,114.75			
11/15/2023			5,446,342.50	5,446,342.50	21,850,457.25	3,277,568.59	25,128,025.84
5/15/2024	11,345,000	6.900	5,446,342.50	16,791,342.50			
11/15/2024			5,054,940.00	5,054,940.00	21,846,282.50	3,276,942.38	25,123,224.88
5/15/2025	12,160,000	6.900	5,054,940.00	17,214,940.00			
11/15/2025			4,635,420.00	4,635,420.00	21,850,360.00	3,277,554.00	25,127,914.00
5/15/2026	13,025,000	6.900	4,635,420.00	17,660,420.00			
11/15/2026			4,186,057.50	4,186,057.50	21,846,477.50	3,276,971.63	25,123,449.13
5/15/2027	13,960,000	6.900	4,186,057.50	18,146,057.50			
11/15/2027			3,704,437.50	3,704,437.50	21,850,495.00	3,277,574.25	25,128,069.25
5/15/2028	14,955,000	6.900	3,704,437.50	18,659,437.50			
11/15/2028			3,188,490.00	3,188,490.00	21,847,927.50	3,277,189.13	25,125,116.63
5/15/2029	16,025,000	6.900	3,188,490.00	19,213,490.00			
11/15/2029			2,635,627.50	2,635,627.50	21,849,117.50	3,277,367.63	25,126,485.13
5/15/2030	17,170,000	6.900	2,635,627.50	19,805,627.50			
11/15/2030			2,043,262.50	2,043,262.50	21,848,890.00	3,277,333.50	25,126,223.50
5/15/2031	18,395,000	6.900	2,043,262.50	20,438,262.50			
11/15/2031			1,408,635.00	1,408,635.00	21,846,897.50	3,277,034.63	25,123,932.13
5/15/2032	19,710,000	6.900	1,408,635.00	21,118,635.00			
11/15/2032			728,640.00	728,640.00	21,847,275.00	3,277,091.25	25,124,366.25
5/15/2033	21,120,000	6.900	728,640.00	21,848,640.00			
11/15/2033					21,848,640.00	3,277,296.00	25,125,936.00
TOTALS	240,000,000		204,894,410.00	444,894,410.00	444,894,410.00	66,734,161.50	511,628,571.50

ESTIMATED AMORTIZATION SCHEDULES

20 Year Taxable
SOURCES AND USES OF FUNDS
Option 5

SOURCES:

Bond Proceeds	240,000,000.00
Accrued Interest	0.00
Total	<u>240,000,000.00</u>

USES:

Unfunded Liability	158,000,000.00	<i>Estimated</i>
Other Uses	18,647,005.00	<i>Estimated</i>
Amount to Defeas Water & Sewer Debt	35,000,000.00	<i>Estimated</i>
Working Capital Reserve	2,000,000.00	<i>Estimated</i>
Debt Service Reserve Fund (MADS)	21,850,495.00	<i>Estimated</i>
Underwriter's Discount	1,440,000.00	<i>Estimated</i>
Estimated Costs of Issuance	3,060,000.00	<i>Estimated</i>
Miscellaneous Expenses/Rounding	2,500.00	
Total	<u>240,000,000.00</u>	

Dated Date 5/15/2013

Settlement Date 5/15/2013

Yield of the Issue 6.732321

ESTIMATED AMORTIZATION SCHEDULES

30 Year Taxable
Option 5

Settle 5/15/2013
Dated 5/15/2013

1	2	3	4	5	6	7	8
Date	Principal	Estimated Taxable Rate	Interest	Semi-Annual Debt Service	Estimated Fiscal Year Debt Service	Debt Service Coverage Requirement 1.15x	Total Debt Service Requirement
11/15/2013			8,325,804.75	8,325,804.75	8,325,804.75	1,248,870.71	9,574,675.46
5/15/2014	2,640,000	6.070	8,325,804.75	10,965,804.75			
11/15/2014			8,245,680.75	8,245,680.75	19,211,485.50	2,881,722.83	22,093,208.33
5/15/2015	2,805,000	6.070	8,245,680.75	11,050,680.75			
11/15/2015			8,160,549.00	8,160,549.00	19,211,229.75	2,881,684.46	22,092,914.21
5/15/2016	2,980,000	6.070	8,160,549.00	11,140,549.00			
11/15/2016			8,070,106.00	8,070,106.00	19,210,655.00	2,881,598.25	22,092,253.25
5/15/2017	3,165,000	6.070	8,070,106.00	11,235,106.00			
11/15/2017			7,974,048.25	7,974,048.25	19,209,154.25	2,881,373.14	22,090,527.39
5/15/2018	3,365,000	6.070	7,974,048.25	11,339,048.25			
11/15/2018			7,871,920.50	7,871,920.50	19,210,968.75	2,881,645.31	22,092,614.06
5/15/2019	3,575,000	6.070	7,871,920.50	11,446,920.50			
11/15/2019			7,763,419.25	7,763,419.25	19,210,339.75	2,881,550.96	22,091,890.71
5/15/2020	3,800,000	6.070	7,763,419.25	11,563,419.25			
11/15/2020			7,648,089.25	7,648,089.25	19,211,508.50	2,881,726.28	22,093,234.78
5/15/2021	4,035,000	6.070	7,648,089.25	11,683,089.25			
11/15/2021			7,525,627.00	7,525,627.00	19,208,716.25	2,881,307.44	22,090,023.69
5/15/2022	4,290,000	6.070	7,525,627.00	11,815,627.00			
11/15/2022			7,395,425.50	7,395,425.50	19,211,052.50	2,881,657.88	22,092,710.38
5/15/2023	4,560,000	6.070	7,395,425.50	11,955,425.50			
11/15/2023			7,257,029.50	7,257,029.50	19,212,455.00	2,881,868.25	22,094,323.25
5/15/2024	4,865,000	6.900	7,257,029.50	12,122,029.50			
11/15/2024			7,089,187.00	7,089,187.00	19,211,216.50	2,881,682.48	22,092,898.98
5/15/2025	5,215,000	6.900	7,089,187.00	12,304,187.00			
11/15/2025			6,909,269.50	6,909,269.50	19,213,456.50	2,882,018.48	22,095,474.98
5/15/2026	5,585,000	6.900	6,909,269.50	12,494,269.50			
11/15/2026			6,716,587.00	6,716,587.00	19,210,856.50	2,881,628.48	22,092,484.98
5/15/2027	5,985,000	6.900	6,716,587.00	12,701,587.00			
11/15/2027			6,510,104.50	6,510,104.50	19,211,691.50	2,881,753.73	22,093,445.23
5/15/2028	6,410,000	6.900	6,510,104.50	12,920,104.50			
11/15/2028			6,288,959.50	6,288,959.50	19,209,064.00	2,881,359.60	22,090,423.60
5/15/2029	6,870,000	6.900	6,288,959.50	13,158,959.50			
11/15/2029			6,051,944.50	6,051,944.50	19,210,904.00	2,881,635.60	22,092,539.60
5/15/2030	7,360,000	6.900	6,051,944.50	13,411,944.50			
11/15/2030			5,798,024.50	5,798,024.50	19,209,969.00	2,881,495.35	22,091,464.35
5/15/2031	7,885,000	6.900	5,798,024.50	13,683,024.50			
11/15/2031			5,525,992.00	5,525,992.00	19,209,016.50	2,881,352.48	22,090,368.98
5/15/2032	8,450,000	6.900	5,525,992.00	13,975,992.00			
11/15/2032			5,234,467.00	5,234,467.00	19,210,459.00	2,881,568.85	22,092,027.85
5/15/2033	9,055,000	6.900	5,234,467.00	14,289,467.00			
11/15/2033			4,922,069.50	4,922,069.50	19,211,536.50	2,881,730.48	22,093,266.98
5/15/2034	9,715,000	7.180	4,922,069.50	14,637,069.50			
11/15/2034			4,573,301.00	4,573,301.00	19,210,370.50	2,881,555.58	22,091,926.08
5/15/2035	10,440,000	7.180	4,573,301.00	15,013,301.00			
11/15/2035			4,198,505.00	4,198,505.00	19,211,806.00	2,881,770.90	22,093,576.90
5/15/2036	11,215,000	7.180	4,198,505.00	15,413,505.00			
11/15/2036			3,795,886.50	3,795,886.50	19,209,391.50	2,881,408.73	22,090,800.23
5/15/2037	12,050,000	7.180	3,795,886.50	15,845,886.50			
11/15/2037			3,363,291.50	3,363,291.50	19,209,178.00	2,881,376.70	22,090,554.70
5/15/2038	12,950,000	7.180	3,363,291.50	16,313,291.50			
11/15/2038			2,898,386.50	2,898,386.50	19,211,678.00	2,881,751.70	22,093,429.70
5/15/2039	13,915,000	7.180	2,898,386.50	16,813,386.50			
11/15/2039			2,398,838.00	2,398,838.00	19,212,224.50	2,881,833.68	22,094,058.18
5/15/2040	14,950,000	7.180	2,398,838.00	17,348,838.00			
11/15/2040			1,862,133.00	1,862,133.00	19,210,971.00	2,881,645.65	22,092,616.65
5/15/2041	16,065,000	7.180	1,862,133.00	17,927,133.00			
11/15/2041			1,285,399.50	1,285,399.50	19,212,532.50	2,881,879.88	22,094,412.38
5/15/2042	17,260,000	7.180	1,285,399.50	18,545,399.50			
11/15/2042			665,765.50	665,765.50	19,211,165.00	2,881,674.75	22,092,839.75
5/15/2043	18,545,000	7.180	665,765.50	19,210,765.50			
11/15/2043					19,210,765.50	2,881,614.83	22,092,380.33
TOTALS	240,000,000		344,651,622.50	584,651,622.50	584,651,622.50	87,697,743.38	672,349,365.88

ESTIMATED AMORTIZATION SCHEDULES

30 Year Taxable

SOURCES AND USES OF FUNDS

Option 5

SOURCES:

Bond Proceeds	240,000,000.00
Accrued Interest	0.00
Total	<u>240,000,000.00</u>

USES:

Unfunded Liability	158,000,000.00	<i>Estimated</i>
Other Uses	21,284,043.50	<i>Estimated</i>
Amount to Defeas Water & Sewer Debt	35,000,000.00	<i>Estimated</i>
Working Capital Reserve	2,000,000.00	<i>Estimated</i>
Debt Service Reserve Fund (MADS)	19,213,456.50	<i>Estimated</i>
Underwriter's Discount	1,440,000.00	<i>Estimated</i>
Estimated Costs of Issuance	3,060,000.00	<i>Estimated</i>
Miscellaneous Expenses/Rounding	<u>2,500.00</u>	
Total	<u>240,000,000.00</u>	

Dated Date 5/15/2013

Settlement Date 5/15/2013

Yield of the Issue 7.031386



*Hypothetical POB
Amortizations
20, 30, 40 & 50 Years*

CITY OF ALLENTOWN
SUMMARY OF HYPOTHETICAL PENSION OBLIGATION BONDS
Assumes Current Interest Rates

	1	2	3	4
	20 YEARS	30 YEARS	40 YEARS	50 YEARS
Principal	\$150,000,000	\$150,000,000	\$150,000,000	\$150,000,000
Term	20 Years	30 Years	40 Years	50 Years
Total Interest	\$128,053,716	\$215,399,050	\$351,365,359	\$486,563,114
Avg Debt Service	\$13,654,589	\$12,006,515	\$12,388,134	\$12,608,332
Overall Yield	6.732309%	7.031364%	7.906170%	8.269947%

5	6	7	8	9
Year Ending	Est Debt Service	Est Debt Service	Est Debt Service	Est Debt Service
12/31/2013	4,961,939	5,203,597	5,840,002	6,146,502
12/31/2014	13,657,031	12,007,116	12,387,848	12,608,139
12/31/2015	13,656,052	12,008,774	12,387,171	12,607,805
12/31/2016	13,655,049	12,004,059	12,388,611	12,611,105
12/31/2017	13,653,113	12,007,515	12,387,016	12,608,039
12/31/2018	13,654,181	12,008,535	12,387,235	12,608,607
12/31/2019	13,652,191	12,006,816	12,388,963	12,607,658
12/31/2020	13,655,929	12,006,903	12,387,049	12,610,039
12/31/2021	13,654,180	12,008,188	12,386,341	12,610,600
12/31/2022	13,655,731	12,005,216	12,386,536	12,609,339
12/31/2023	13,654,216	12,007,381	12,387,330	12,611,106
12/31/2024	13,652,935	12,006,003	12,387,687	12,608,258
12/31/2025	13,656,130	12,008,653	12,386,604	12,610,306
12/31/2026	13,653,100	12,005,778	12,388,622	12,609,248
12/31/2027	13,656,258	12,006,343	12,388,222	12,609,913
12/31/2028	13,652,843	12,004,141	12,389,887	12,607,128
12/31/2029	13,654,923	12,007,791	12,388,099	12,610,548
12/31/2030	13,654,220	12,005,913	12,387,342	12,609,828
12/31/2031	13,652,458	12,007,128	12,386,924	12,609,796
12/31/2032	13,655,840	12,004,883	12,386,157	12,610,106
12/31/2033	13,655,400	12,007,453	12,389,177	12,610,413
12/31/2034		12,004,270	12,386,363	12,608,693
12/31/2035		12,007,110	12,386,400	12,609,302
12/31/2036		12,006,203	12,386,538	12,608,270
12/31/2037		12,004,217	12,390,522	12,610,057
12/31/2038		12,008,280	12,387,273	12,609,126
12/31/2039		12,005,519	12,390,536	12,605,118
12/31/2040		12,007,883	12,388,875	12,607,314
12/31/2041		12,006,961	12,390,853	12,609,817
12/31/2042		12,004,344	12,389,855	12,607,088
12/31/2043		12,006,081	12,389,265	12,608,410
12/31/2044			12,390,333	12,607,893
12/31/2045			12,390,076	12,608,122
12/31/2046			12,386,673	12,606,436
12/31/2047			12,391,106	12,606,442
12/31/2048			12,389,144	12,606,548
12/31/2049			12,386,557	12,605,162
12/31/2050			12,388,270	12,605,493
12/31/2051			12,388,784	12,605,551
12/31/2052			12,387,387	12,608,147
12/31/2053			12,387,736	12,606,092
12/31/2054				12,609,553
12/31/2055				12,607,003
12/31/2056				12,608,568
12/31/2057				12,609,878
12/31/2058				12,606,563
12/31/2059				12,608,598
12/31/2060				12,605,519
12/31/2061				12,606,428
12/31/2062				12,609,551
12/31/2063				12,607,896
12/31/2064				
12/31/2065				
TOTAL	278,053,716	365,399,050	501,365,359	636,563,114



Estimated Impact on Allentown Residents

FOR ILLUSTRATIVE PURPOSES ONLY

CITY OF ALLENTOWN
ESTIMATED IMPACT ON ALLENTOWN RESIDENTS

ESTIMATED EFFECT OF INCREASES ON REAL ESTATE TAX

	1	2	3	4
		Current Real Estate	45% Increase	Total Real Estate
NORTH	100 Block N. 5th St	\$470.54	\$211.74	\$682.28
	0-99 Block N. 2nd St	\$277.91	\$125.06	\$402.97
	500 Block Park St	\$410.09	\$184.54	\$594.63
SOUTH	0-99 Block S. Bradford St	\$350.43	\$157.69	\$508.12
	2000 Block S. Albert St	\$814.69	\$366.61	\$1,181.30
	2800 Block Ithaca St	\$580.84	\$261.38	\$842.22
EAST	600 Block N. Sherman St	\$823.69	\$370.66	\$1,194.35
	900 Block Hanover St	\$548.58	\$246.86	\$795.44
	1000 E. Tilghman St	\$870.28	\$391.63	\$1,261.91
WEST	0-99 Block N. 11th St	\$697.59	\$313.92	\$1,011.51
	500 Block N. 28th St	\$1,029.90	\$463.46	\$1,493.36
	800 Block N. 28th St	\$1,343.16	\$604.42	\$1,947.58
City Average Real Estate		\$684.81	\$308.16	\$992.97

*Based on current millage rate of 17.53 mills

ESTIMATED EFFECT OF INCREASES ON WATER & SEWER RATES

	5	6	7	8
		Current Rate	85% Increase	Total Rate
City of Allentown Water Rate		\$304.00	\$258.40	\$562.40
City of Allentown Sewer Rate		\$183.00	\$155.55	\$338.55
Total Water & Sewer Rate		\$487.00	\$413.95	\$900.95

ESTIMATED EFFECT OF INCREASE TO EARNED INCOME TAX

	9	10	11	12
		Current EIT*	100% Increase	Total Rate
City Earned Income Tax		\$307.72	\$307.72	\$615.43
Average City EIT		\$307.72	\$307.72	\$615.43

*Based on Median Household Income from 2010 Census of \$36,202.