



The Phoenix Rises: Bringing Bell Back to the Bond Market

Tineke Norrdin
Finance Director
City of Bell



David Brodsky
Managing Director
KNN Public Finance, LLC



Ben Geare
Associate Director
S&P Global Ratings



Jose Vera
Managing Director
Stifel, Nicolaus & Co.



Team

- The Issuer: City of Bell
 - Tineke (Tina) Norrdin, Finance Director
- Municipal Advisor: KNN Public Finance, LLC
 - David Brodsly, Managing Director
- Underwriter: Stifel Jose Vera, Managing Director
- Rating Agency: S & P Global Ratings
 - Ben Geare, Associate Director



The Downfall



LA Times Reports Bell Scandal: Headlines

- “Is a city manager worth \$800,000?”
 - *July 15, 2010 (“Top officials are paid double or triple the salaries of their counterparts elsewhere.”)*
- “Bell leaders hauled off in cuffs”
 - *September 22, 2010 (“Eight current and former Bell city leaders were arrested on charges of misappropriating more than \$5.5 million.”)*
- “Bell’s Rizzo sentenced to 12 years in prison”
 - *April 16, 2014 (also ordered to pay \$9 million in restitution)*
- “Former Bell second-in-command gets 11 years in prison for corruption”
 - *April 10, 2014 (“Must also pay the City \$8 million.”)*
- “5 former council members plead no contest to misappropriating public funds”
 - *April 9, 2014 (“Ending prosecutions in the corruption case.”)*



Fallout

- Resignation of officials, recall of Council
- A complete turnover of staff and a scramble for staffing
- Multiple investigations and audits (State Controller, SEC, IRS)
- The State Controllers' office found, among its many findings, that the City's financial internal control system was, in effect, non-existent.
 - The former CAO had complete control and discretion over how city funds were to be used
- Settlement with IRS
 - City paid General Funds to settle for over-issuance of general obligation bonds
- Litigation with a private lender triggered by payment default



Rebuilding Bell: FY 2012 – 2013

- LA Times: “Bell faces 'fiscal crisis' after corruption scandal, audit finds.”
 - Affirmative decision to avoid filing for bankruptcy protection
 - City three years behind in annual audits
 - Bank statements had not been reconciled for more than two years
 - General Fund fund balance was \$200,000 (after audits completed)
- 55 different lawsuits pending
- Bell’s new Council and citizens demanded justice
 - Tender and defeasance of general obligation bonds with unspent proceeds allowed City to lower tax rates
- Hired talented and committed Department Heads
- Commitment to transparency



Rebuilding Bell: FY 2013 – 2014

- Focused bare-bones budgets on effective service provision to the community
 - Minimized expenses and limited staffing
- \$25.7 million one-time infusion of cash created a strong General Fund reserve
 - Sold land for \$15.2 million
 - Collected \$5.7 million in legal settlements from former City management
 - Collected \$4.8 million from the liquidation of an illegally–devised supplemental retirement program



Rebuilding Bell: FY 2015 – 2018

- Continued commitment to transparency, effective service provision, minimizing expenses and limiting staffing
- Issued timely financial reports
- Produced first CAFR and received GFOA award for Excellence in Financial Reporting
- Became compliant with annual debt disclosure requirements
- Aggressive pursuit of Economic Development opportunities
- City has completed all 34 of the recommendations by State Controller's Office audits



Bringing Bell Back to the Market

- A refunding motivated by savings and the opportunity for redemption
- First step was hiring a financial advisor
- Negotiated sale and underwriter selection
- Rating agency selection
- Taxable series



Ben Geare
Associate Director
benjamin.geare@spglobal.com



Restoring Credit Rating to Bell, CA

January 2019

S&P Rating History

GO Ratings

- May 21, 2009: Upgraded to A-/stable from BBB+ citing “maintenance of very strong fund balances”
- Aug 10, 2010: Lowered to BB from A-, placed on CreditWatch Negative; based on our assessment of city’s “ability and willingness to pay”
- Sept 29, 2010: All ratings on the city withdrawn; based on “lack of timely information made available by the city”

Key Events in 2010

- July 10, 2010: LA Times breaks first story on high pay of city administrators
- July 23, 2010: The city administrator, assistant administrator and police chief resigned, while the mayor and the city council continued to govern the city
- Sept 22, 2010: CA SCO releases first of four audits on the city; “Bell 8” are arrested
- Nov 1, 2010: City defaults on \$35 million payment to Dexia for 2007 LRB

Reviewing the Credit

- City's political leadership and senior administrative staff completely turned over since the criminal activity was revealed in 2010
- The most significant legal liabilities the city faced were resolved:
 - Investigations by the IRS and the SEC
 - Lawsuit over the city's defaulted 2010 payment to Dexia Credit Local had been resolved
- CA State Controller's Office has not officially confirmed that the city has addressed all 34 internal control recommendations contained in the four audits that were released in 2010 following the scandal
 - However, based on conversations with the city's current auditor, in our view the city adequately responded to the recommendations
- Three years of timely, clean audits

Where the rating came out

- BBB+ with stable outlook
- Very strong budgetary flexibility
 - Available fund balance in fiscal 2017 of 95% of operating expenditures, or \$14.5 million
- Strong budgetary performance
 - Operating surpluses of 4.0% of expenditures in the general fund and of 2.3% across all governmental funds in fiscal 2017
- Strong liquidity
 - Total government available cash at 116.9% of total governmental fund expenditures and 7.3x governmental debt service in 2017
- Very weak debt and contingent liability profile; weak economy
- Credit committee's assessment of management:
- City has struggled to maintain administrative staff in key positions. In our view, this turnover:
 - Caused material financial impacts
 - Slowed the city's ability to rebuild its internal control infrastructure; and
 - Inhibited the institutional memory necessary to promptly carry out various political and legal reforms
- As a consequence, we believe this turnover has limited management's overall understanding of the city's financial position and inhibited management's ability to promptly execute its duties

Marketing Points: The New Bell

- **New Council and Management**
 - Focused on internal control and conservative financial practices
 - Completed all 34 of the recommendations by State Controller's Office audits
- **Remarkably Strong Finances**
 - Available fund balance equal to 133% of revenues
 - A property tax override that finances most pension and OPEB expenditures
- **Solid Working-Class Community**
 - Median household income is 69% of County average
 - AV per capita is \$48,370
 - Home ownership rate of 27.8%
- **Well Diversified Land Use**
 - Residential Accounts for 62.2% of the FY 2018 Assessed Value
 - Single Family Residence – 26.7%
 - 2-4 Residential Units – 24.0%
 - 5+ Residential Units – 10.7%
- **The inherent strengths of the California GO**



City of Bell
General Obligation Refunding Bonds,
Series 2018A & Series 2018B (Federally Taxable)

Date of Presentation: March 22, 2018



Summary:
Bell, California; General Obligation

Credit Profile	Rating	Action
US\$15.275 mil go oblig bonds ser 2018B due 08/01/2037 Long Term Rating	BBB+/Stable	New
US\$8.35 mil go oblig bonds ser 2018A due 08/01/2034 Long Term Rating	BBB+/Stable	New

Rationale

S&P Global Ratings assigned its 'BBB+' long-term rating and underlying rating to Bell, Calif's series 2018A and 2018B general obligation (GO) refunding bonds. The outlook is stable.

In 2010, it was revealed that the political and administrative leadership of the small California city were among the highest paid in the nation. Following several audits and investigations, eight then-current and former city leaders were charged with misappropriation of city funds in September 2010; seven of those former leaders were ultimately found guilty of multiple counts of corruption and other criminal charges. We have not rated any debt associated with the City of Bell, Calif since September 2010 when thereafter we could not obtain timely information to maintain previous ratings.

We note the city's political leadership and senior administrative staff have completely turned over since the criminal activity was revealed in 2010. In addition, we have confirmed that the most significant legal liabilities the city faced, including investigations by the Internal Revenue Service (IRS), the Securities and Exchange Commission (SEC), and a lawsuit over the city's defaulted 2010 payment to Delta Credit Local, have all been resolved. Furthermore, while the California State Controller's Office has not officially confirmed that the city has addressed all the 34 internal control recommendations contained in the four audits that were released in 2010 following the scandal, based on conversations with the city's current auditor, in our view the city has adequately responded to the recommendations.

Revenue from unlimited ad valorem taxes levied on taxable property in the city secures the GO bonds. The city has the power and obligation to levy these taxes without limitation as to rate or amount. The bond proceeds will be used to refund all of the city's outstanding series 2004 (election of 2003) GO bonds and the city's series 2007 (election of 2003).

The ratings reflect our view of the following credit factors:

- Weak economy, with projected per capita effective buying income at 41.8% and market value per capita of \$48,371;
- Weak management, despite standard financial policies and practices under our Financial Management Assessment (FMA) methodology, with staff turnover negatively affecting the city's finances and operations;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2017.

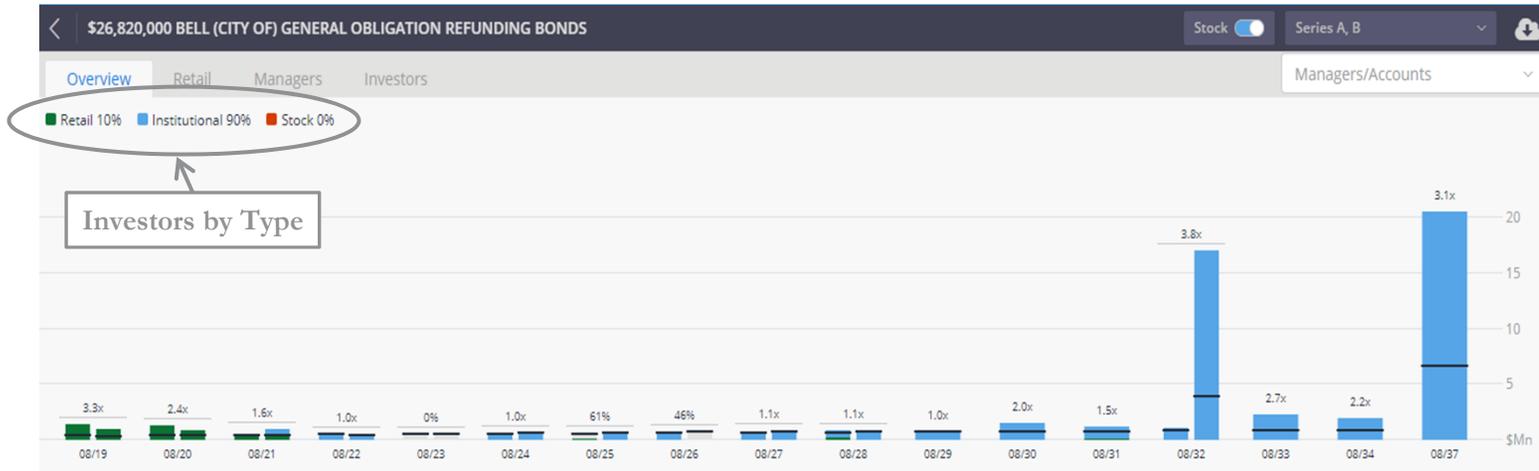
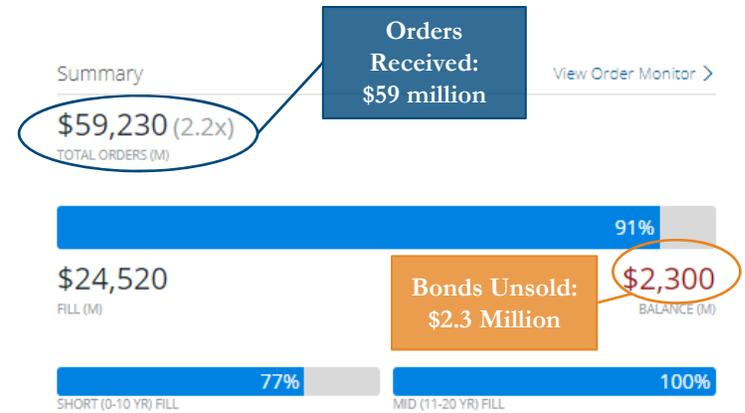
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ISSUES - UNCHANGED



Marketing and Pricing

- Access to Capital Markets
 - Restored City's rating to an investment grade level
- City Received Competitive Insurance Bids
 - Ultimately insured by Build America Mutual (BAM)
 - 'AA' Insurance assisted with expanding investor audience
- Received 61 Individual Orders for total of \$59.2 Million
 - Comprised of 90% institutional and 10% retail
 - Stifel Underwrote \$2.3 million

IPREO Order Monitor Snapshot



Financing Results

- Investor Interest Led to Lower Yields
 - Tax-Exempt Yields Repriced Lower by 10bps on average from Pre-Pricing
 - Taxable Term Bonds Lower by 5 bps on average
- Cash Flow Savings:
 - Tax-Exempt Ref 2004: \$1.50 Million
 - Taxable Ref 2007: \$2.64 Million
 - Aggregate: \$4.14 Million

Tax-Exempt Repricing After the Order Period

Pricing Date	Proposed Final - May 23, 2018				Change from Prelim	Preliminary Pricing - May 22, 2018			
	Year	Coupon	Yield	AAA AUG MMD Yield Spread		Coupon	Yield	AAA AUG MMD	Yield Spread
2019	3.000	1.740	1.730	+1	-14	3.000	1.880	1.730	+15
2020	4.000	1.980	1.860	+12	-13	4.000	2.110	1.860	+25
2021	5.000	2.200	1.950	+25	-10	5.000	2.300	1.950	+35
2022	5.000	2.320	2.020	+30	-10	5.000	2.420	2.020	+40
2023	2.250	2.450	2.100	+35	-10	5.000	2.550	2.100	+45
2024	5.000	2.570	2.220	+35	-10	5.000	2.670	2.220	+45
2025	5.000	2.680	2.330	+35	-10	5.000	2.780	2.330	+45
2026	5.000	2.810	2.430	+38	-10	5.000	2.910	2.430	+48
2027	5.000	2.900	2.500	+40	-10	5.000	3.000	2.500	+50
2028	5.000	3.010	2.560	+45	-10	5.000	3.110	2.560	+55
2029	5.000	3.110	2.610	+50	-10	5.000	3.210	2.610	+60
2030	5.000	3.190	2.660	+53	-10	5.000	3.290	2.660	+63
2031	5.000	3.240	2.690	+55	-10	5.000	3.340	2.690	+65
2032	5.000	3.290	2.740	+55	-10	5.000	3.390	2.740	+65
2033	3.375	3.590	2.790	+80	-10	3.375	3.690	2.790	+90
2034	3.375	3.640	2.840	+80	-10	3.500	3.740	2.840	+90

Savings Analysis Over the Life of the Transaction						
Date	1/23/2018	3/1/2018	4/4/2018	5/1/2018	Prelim. Pricing	Final Pricing
Par Amount	26,040,000	24,725,000	26,420,000	26,785,000	26,860,000	26,765,000
Available Tax Revenues	2,500,000	3,948,484	2,792,630	2,527,082	2,500,000	2,500,000
Rating Assumption	A-	A-	A-	BBB+	BBB+	BBB+
10 Year MMD	2.21%	2.47%	2.43%	2.50%	2.52%	2.51%
TIC	3.90%	4.04%	3.95%	4.21%	4.08%	4.00%
Avg. Annual Debt Service	2,021,398	1,963,597	2,048,341	2,120,857	2,083,790	2,069,564
Avg. Annual Savings	320,778	303,485	233,866	175,191	202,003	216,229
NPV Savings (\$)	1,847,771	1,836,547	1,881,849	1,114,278	1,612,631	1,816,204
NPV Savings (%)	6.40%	6.36%	6.52%	3.86%	5.58%	6.29%



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