

CITY OF ONTARIO, CALIFORNIA

\$239 MILLION TAXABLE
PENSION OBLIGATION BONDS
MAY 12, 2020

THE NEED

The City of Ontario, Calif., (the City) needed a solution to address the unfunded accrued liability (UAL) of the City's safety police fund and safety fire fund, which were funded at 66 percent and 69.2 percent, respectively. They faced the additional challenge of bringing a transaction to market in a difficult economic environment driven by the ongoing impact of the COVID-19 pandemic, which is expected to continue pressuring an already distressed sector.

THE SOLUTION

HilltopSecurities Managing Director Robin Thomas, working closely with Director Andy Kuo and the firm's underwriting, sales and trading teams, partnered with the City of Ontario to structure a \$239 million Pension Obligation Bond (POB) issuance which was successfully launched on May 12, 2020. HilltopSecurities served as sole senior manager on the transaction, which was one of the largest California POB deals in recent years and one of the nation's larger negotiated deals to price during that week. The deal was priced at par to yield from 1.971% in 2021 to 3.379% in 2032, 3.779% in 2038, 3.829% in 2045 and 3.979% in 2050.

The HilltopSecurities Team

Robin Thomas
Managing Director

Andy Kuo
Director

Brian Whitworth
Managing Director

William Evans
Managing Director

Jason Lisec
Sr. Managing Director

Kelly Jocoy
Managing Director



During the order period, HilltopSecurities generated \$766 million in priority orders, creating a subscription level of 3.2x. The firm generated orders from 45 different accounts, primarily tier 1 and tier 2 institutional investors. HilltopSecurities' trading desk continued to support the deal and create liquidity in the secondary market. In the process of marketing the transaction, the firm's sales desk held conversations with more than 200 tier 1 and tier 2 accounts and opened new international accounts in Japan, Germany, Cayman Islands, and South Korea among others.

THE RESULT

The bond proceeds will be used to bring the UAL of the City's safety police fund and safety fire fund to 100 percent funded as of the California Public Employees' Retirement System (CalPers) last reporting date of June 30, 2018 as adjusted by CalPers. In addition, the successful transaction:

- Provides future budgeting stability to the City by increasing debt service in the first three years, leveling debt service for the middle years and decreasing debt service in the back six years of the bonds to take out projected CalPers payment spikes.
- Provides estimated debt service savings to the City of approximately \$110 million over estimated CalPers amortizations.

- Provides for the final two payments to CalPers for the remaining Fiscal Year 2019-20 liability to be included in the Bond financing for immediate budget relief in the amount of \$2.03 million.
- Allows the City to budget and manage new CalPers UAL with their recently approved Pension Obligation Policy.
- Provides the possibility of CalPers investment returns to be greater than the interest rates on the bonds thereby reducing future UAL payments.

ABOUT HILLTOPSECURITIES

Hilltop Securities Inc. delivers forthright advice and tailored solutions for municipal issuers, institutions, broker-dealers, and individuals. The full-service municipal investment bank and registered investment adviser is headquartered in Dallas, Texas, with offices across the United States. Areas of focus include public finance; municipal and taxable fixed income underwriting, sales, and trading; retail brokerage services; securities clearing; structured finance; and securities lending. HilltopSecurities is a wholly owned subsidiary of Hilltop Holdings, Inc. (NYSE: HTH) located at 1201 Elm Street, Suite 3500, Dallas, Texas 75270, (214) 859-1800, member: NYSE/FINRA/SIPC.

[HilltopSecurities.com](https://www.hilltopsecurities.com)

This communication for educational and informational purposes only and does not constitute legal or investment advice, nor is it an offer or a solicitation of an offer to buy or sell any investment or other specific product or service. Financial transactions may be dependent upon many factors such as, but not limited to, interest rate trends, tax rates, supply, and change in laws, rules and regulations, as well as changes in credit quality and rating agency considerations. The effect of such changes in such assumptions may be material and could affect the projected results. Any outcome or result HilltopSecurities, or any of its employees, may have achieved on behalf of our clients in previous matters does not necessarily indicate similar results can be obtained in the future for current or potential clients. HilltopSecurities makes no claim the use of this communication will assure a successful outcome. For additional information, comments or questions, please contact Hilltop Securities Inc.