

RESOLUTION OF THE CITY COUNCIL OF THE CITY OF HUNTINGTON BEACH PROVIDING FOR THE ISSUANCE OF ONE OR MORE SERIES OF CITY OF HUNTINGTON BEACH TAXABLE PENSION OBLIGATION BONDS AND AUTHORIZING A TRUST AGREEMENT, A VALIDATION ACTION AND OTHER MATTERS RELATING THERETO

WHEREAS, pursuant to Sections 20000 *et seq.* of the California Government Code (the “Retirement Law”), the City of Huntington Beach (the “City”) has established two pension plans, a Safety Plan (the “Safety Plan”) and a Miscellaneous Plan (the “Miscellaneous Plan”), with the California Public Employees’ Retirement System (“PERS”); and

WHEREAS, the Retirement Law obligates the City (a) to make annual payments to PERS to fund pension benefits for City employees who are PERS members, and (b) to make annual payments to PERS to amortize the unfunded accrued actuarial liability with respect to such pension benefits over a period not exceeding 30 years; and

WHEREAS, the obligation of the City to make such payments is evidenced by a contract between the City and PERS (collectively, as heretofore and hereafter amended, the “PERS Contract”); and

WHEREAS, as of June 30, 2018, based upon the actuarial reports of pension liability as calculated by PERS with respect to the Safety Plan and the Miscellaneous Plan (together, the “Actuarial Reports”), the City had an obligation in the amount of \$436.2 million (consisting of \$270.1 million for the Safety Plan and \$166.1 million for the Miscellaneous Plan) pursuant to the Retirement Law as an unfunded accrued actuarial liability, based on the market value of assets; and

WHEREAS, in order to refund a portion of the PERS Contract by paying all or portion of such unfunded accrued actuarial liability, the City desires to issue taxable pension obligation bonds to be designated the “City of Huntington Beach Taxable Pension Obligation Bonds,” with such series and other designations as may be approved as herein provided, in one or more series (collectively, the “Initial Series of Bonds”), in an aggregate principal amount not to exceed the sum of (a) the City’s unfunded accrued actuarial liability under the PERS Contract pursuant to the Retirement Law as of the date of issuance of the Initial Series of Bonds (\$436.2 million as of June 30, 2018, as set forth in the Actuarial Reports), (b) the costs of issuance of the Initial Series of Bonds (including underwriter’s discount), and (c) any original issue discount on the Initial Series of Bonds; and

WHEREAS, the City desires to authorize the issuance of additional bonds (the “Additional Bonds”) payable on a parity with the Initial Series of Bonds (the Initial Series of Bonds and any such Additional Bonds being collectively referred to herein as the “Bonds”), for the purpose of refunding then payable portions of the PERS Contract by paying all or a portion of the obligation of the City, as of the date of issuance of such Additional Bonds, to pay to PERS the City’s annual contribution to PERS to fund pension benefits for its members and their

beneficiaries and the City's unfunded accrued actuarial liability pursuant to the Retirement Law; and

WHEREAS, in order to provide for the authentication and delivery of the Initial Series of Bonds and to establish and declare the terms and conditions upon which the Initial Series of Bonds and Additional Bonds are to be issued and secured, the City proposes to enter into a Trust Agreement with U.S. Bank National Association or other commercial bank (such Trust Agreement, in the form presented to this meeting, with such changes, insertions and omissions as are made pursuant to this Resolution, being referred to herein as the "Trust Agreement"), as trustee; and

WHEREAS, there has been prepared and submitted to this meeting a form of the Trust Agreement; and

WHEREAS, the City has levied and continues to levy an *ad valorem* property tax override levied at the rate of \$0.01500 per \$100 of the assessed value of all taxable property within the City (the "Pension Tax Override") to pay for the pension obligations of the City to employees approved by the voters prior to July 1, 1978 (collectively, the "Prior Approved Pension Obligations") as permitted under Article XIII A, Section 1(b)(1) of the California Constitution; and

WHEREAS, the City may, upon the advice of its financial advisor and underwriter, determine to pledge the Pension Tax Override in an amount not to exceed the Prior Approved Pension Obligations to the payment of the Bonds; and

WHEREAS, the City has adopted a local debt policy (the "Debt Management Policy") that complies with Government Code Section 8855(i), and the City's issuance of the Initial Series of Bonds as contemplated by this Resolution is in compliance with the Debt Management Policy; and

WHEREAS, California Government Code Section 5852.1 requires that the City Council obtain from an underwriter, financial advisor or private lender and disclose, prior to authorization of the issuance of bonds with a term of greater than 13 months, good faith estimates of the following information in a meeting open to the public: (a) the true interest cost of the bonds, (b) the sum of all fees and charges paid to third parties with respect to the bonds, (c) the amount of proceeds of the bonds expected to be received net of the fees and charges paid to third parties and any reserves or capitalized interest paid or funded with proceeds of the bonds, and (d) the sum total of all debt service payments on the bonds calculated to the final maturity of the bonds plus the fees and charges paid to third parties not paid with the proceeds of the bonds; and

WHEREAS, in compliance with Government Code Section 5852.1, the City Council has obtained from KNN Public Finance, A Limited Liability Company, as financial advisor and as municipal advisor under Section 15B of the Securities Exchange Act of 1934 to the City, the required good faith estimates with respect to the Initial Series of Bonds and such estimates are disclosed and set forth on Exhibit A attached hereto; and

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF HUNTINGTON BEACH DOES HEREBY RESOLVE, DETERMINE AND ORDER AS FOLLOWS:

Section 1. All of the recitals herein contained are true and correct and the City Council of the City (the “City Council”) so finds.

Section 2. The City Council hereby finds and declares that the issuance of the Initial Series of Bonds and the Additional Bonds and the other actions contemplated hereby are in the best interests of the City and are expected, based on investment and other assumptions, to result in significant savings to the taxpayers of the City.

Section 3. The issuance of the Initial Series of Bonds, on the terms and conditions set forth in, and subject to the limitations specified in, the Trust Agreement, is hereby authorized and approved. The Initial Series of Bonds, in substantially the form set forth in the Trust Agreement submitted to this meeting and made a part hereof as though set forth herein, be and the same are hereby approved. The Initial Series of Bonds may be issued as fixed rate, current interest bonds, may have applicable call features, authorized denominations, payment dates and other variable items related thereto, and may have series and other designations as appropriate; provided, however, that (a) the aggregate principal amount of the Initial Series of Bonds shall not exceed the City’s unfunded accrued actuarial liability under the PERS Contract pursuant to the Retirement Law as of the date of issuance of the Initial Series of Bonds (\$436.2 million as of June 30, 2018, as set forth in the Actuarial Reports), as determined by PERS, plus the underwriter’s discount on the Initial Series of Bonds, plus any original issue discount on the Initial Series of Bonds, plus the costs of issuance of the Initial Series of Bonds, (b) the true interest cost to the City on the Initial Series of Bonds shall not exceed 5.00%, and (c) the Initial Series of Bonds shall mature not later June 30, 2043 (the current PERS final amortization of the City’s unfunded accrued actuarial liability as set forth in the Actuarial Reports). The Mayor of the City, and such other member of the City Council as the Mayor may designate, the City Manager, the Assistant City Manager and the Chief Financial Officer of the City, and such other officers of the City as the City Manager may designate (collectively, the “Authorized Officers”) are, and each of them is, hereby authorized and directed, for and in the name of the City, to execute and deliver the Initial Series of Bonds in the form attached to the Trust Agreement, with such changes, insertions and omissions as the Authorized Officer executing the same may require or approve, such requirement or approval to be conclusively evidenced by the execution of the Initial Series of Bonds by such Authorized Officer. The Initial Series of Bonds shall constitute an obligation imposed by law, pursuant to the Constitution of the State of California and the Retirement Law, and an obligation of the City not limited as to payment from any special source of funds; provided, however, that the Initial Series of Bonds shall not constitute an obligation of the City for which the City is obligated to levy or pledge any form of taxation or for which the City has levied or pledged or will levy or pledge any form of taxation, except that the City may, and this Resolution gives the City the authority to, upon the advice of its financial advisor and underwriter, pledge the Pension Tax Override in an amount not to exceed the Prior Approved Pension Obligations to the payment of the Bonds, as determined and approved by an Authorized Officer.

Section 4. The Trust Agreement, in substantially the form submitted to this meeting and made a part hereof as though set forth herein, be and the same is hereby approved. The

Authorized Officers are, and each of them is, hereby authorized and directed, for and in the name of the City, to execute and deliver the Trust Agreement, with such changes, insertions and omissions as the Authorized Officer executing the same may require or approve, such requirement or approval to be conclusively evidenced by the execution of the Trust Agreement by such Authorized Officer; provided, however, that any such changes, insertions and omissions shall be consistent with the authority, and limitations thereon, granted to the Authorized Officers in Section 3 hereof.

Section 5. The issuance of the Additional Bonds, on the terms and conditions set forth in, and subject to the limitations specified in, the Trust Agreement, is hereby authorized and approved. The Additional Bonds, in substantially the form of the Initial Series of Bonds set forth in the Trust Agreement submitted to this meeting and made a part hereof as though set forth herein, be and the same are hereby approved. The Additional Bonds may be issued in one or more series, and may be issued as fixed rate, current interest bonds, may have applicable call features, authorized denominations, payment dates and other variable items related thereto, and may have series and other designations as appropriate; provided, however, that (a) the aggregate initial principal amount of each issuance of Additional Bonds shall not exceed the sum of the unpaid amount of the City's obligation to make an annual contribution to PERS to fund pension benefits for its members and their beneficiaries in the fiscal year such Additional Bonds are issued plus the estimated unfunded accrued actuarial liability of the City to PERS pursuant to the Retirement Law as of the date of issuance of such Additional Bonds, as determined by the City and an independent actuary, plus the underwriter's discount on such issue of Additional Bonds, plus any original issue discount on such issue of Additional Bonds, plus the costs of issuance of such series of Additional Bonds, and (b) the true interest cost to the City on such series of Additional Bonds shall not exceed the true interest cost of the interest rate established by PERS on the unfunded accrued actuarial liability of the City, and (c) the Additional Bonds of each series shall mature not later than 30 years from the date of issuance thereof. The Authorized Officers are, and each of them is, hereby authorized and directed, for and in the name of the City, to execute and deliver the Additional Bonds in substantially the form of the Initial Series of Bonds set forth in the Trust Agreement, with such changes, insertions and omissions as the Authorized Officer executing the same may require or approve, such requirement or approval to be conclusively evidenced by the execution of the Additional Bonds by such Authorized Officer. The Additional Bonds shall constitute an obligation imposed by law, pursuant to the Constitution of the State of California and the Retirement Law, and an obligation of the City not limited as to payment from any special source of funds; provided, however, that the Additional Bonds shall not constitute an obligation of the City for which the City is obligated to levy or pledge any form of taxation or for which the City has levied or pledged or will levy or pledge any form of taxation, except that the City may, and this Resolution gives the City the authority to, upon the advice of its financial advisor and underwriter, pledge the Pension Tax Override in an amount not to exceed the Prior Approved Pension Obligations to the payment of the Bonds, as determined and approved by an Authorized Officer.

Section 6. The Authorized Officers are, and each of them is, authorized and directed, for and in the name of the City, to do any and all things, including bringing a validation action under Section 860 of the California Code of Civil Procedure, and to execute and deliver any and all documents which they or any of them deem necessary or advisable in order to consummate the

transactions contemplated by this Resolution and otherwise to carry out, give effect to and comply with the terms and intent of this Resolution.

Section 7. With the passage of this Resolution, the City Council hereby certifies that the Debt Management Policy complies with Government Code Section 8855(i) and that the Initial Series of Bonds authorized to be issued pursuant to this Resolution are consistent with such policy.

Section 8. All actions heretofore taken by the officers, employees and agents of the City with respect to the transaction set forth above are hereby approved, confirmed and ratified.

Section 9. This Resolution shall take effect from and after its date of adoption.

PASSED AND ADOPTED by the City Council of the City of Huntington Beach at a regular meeting thereof held on the 18th day of November, 2019.

Mayor

REVIEWED AND APPROVED:

INITIATED AND APPROVED:

City Manager

Chief Financial Officer

APPROVED AS TO FORM:

City Attorney

EXHIBIT A

GOOD FAITH ESTIMATES

The good faith estimates set forth herein are provided with respect to the Initial Series of Bonds in compliance with Section 5852.1 of the California Government Code. Such good faith estimates have been provided to the City by KNN Public Finance, A Limited Liability Company, the City's financial advisor and municipal advisor under Section 15B of the Securities Exchange Act of 1934 (the "Municipal Advisor").

Principal Amount. The Municipal Advisor has informed the City that, based on the City's financing plan and based on market conditions prevailing at the time of preparation of such estimate, its good faith estimate of the aggregate principal amount of the Initial Series of Bonds to be sold in a public offering is \$444,380,000.00 (the "Estimated Principal Amount").

True Interest Cost of the Initial Series of Bonds. The Municipal Advisor has informed the City that, assuming that the Estimated Principal Amount of the Initial Series of Bonds is sold, and based on market conditions prevailing at the time of preparation of such estimate, its good faith estimate of the true interest cost of the Initial Series of Bonds, which means the rate necessary to discount the amounts payable on the respective principal and interest payment dates to the purchase price received for the Initial Series of Bonds, is 3.408%.

Finance Charge of the Initial Series of Bonds. The Municipal Advisor has informed the City that, assuming that the Estimated Principal Amount of the Initial Series of Bonds is sold, and based on market conditions prevailing at the time of preparation of such estimate, its good faith estimate of the finance charge for the Initial Series of Bonds, which means the sum of all fees and charges paid to third parties (or costs associated with the Initial Series of Bonds), is \$1,261,341.00.

Amount of Proceeds to be Received. The Municipal Advisor has informed the City that, assuming that the Estimated Principal Amount of the Initial Series of Bonds is sold, and based on market conditions prevailing at the time of preparation of such estimate, its good faith estimate of the amount of proceeds expected to be received by the City for sale of the Initial Series of Bonds, less the finance charge of the Initial Series of Bonds, as estimated above, and any reserves or capitalized interest paid or funded with proceeds of the Initial Series of Bonds, is \$443,118,659.00.

Total Payment Amount. The Municipal Advisor has informed the City that, assuming that the Estimated Principal Amount of the Initial Series of Bonds is sold, and based on market conditions prevailing at the time of preparation of such estimate, its good faith estimate of the total payment amount, which means the sum total of all payments the City will make to pay debt service on the Initial Series of Bonds, plus the estimated finance charge for the Initial Series of Bonds, as described above, not paid with the proceeds of the Initial Series of Bonds, calculated to the final maturity of the Initial Series of Bonds, is \$650,307,062.

The foregoing estimates constitute good faith estimates only and are based on market conditions prevailing at the time of preparation of such estimates. The actual principal amount of

the Initial Series of Bonds issued and sold, the true interest cost thereof, the finance charges thereof, the amount of proceeds received therefrom and total payment amount with respect thereto may differ from such good faith estimates for a variety of reasons, including, without limitation, due to (a) the market conditions prevailing on the actual date of the sale of the Initial Series of Bonds being different than the market conditions prevailing at the time of preparation of the estimates contained herein, (b) the actual principal amount of Initial Series of Bonds sold being different from the Estimated Principal Amount, (c) the actual amortization of the Initial Series of Bonds being different than the amortization assumed for purposes preparing the estimates contained herein, (d) the actual interest rates at which the Initial Series of Bonds are sold being different than those estimated for purposes of preparing the estimates contained herein, (e) other market conditions, or (f) alterations in the City's financing plan, or a combination of such factors. The actual date of sale of the Initial Series of Bonds and the actual principal amount of Initial Series of Bonds sold will be determined by the City based on various factors. The actual interest rates borne by the Initial Series of Bonds will depend on market conditions at the time of sale thereof. The actual amortization of the Initial Series of Bonds will also depend, in part, on market conditions at the time of sale thereof. Market conditions, including, without limitation, interest rates are affected by economic and other factors beyond the control of the City and the Municipal Advisor.