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Juelle-Ann Boyer, Interim Finance Director
Liz Warmerdam, Assistant City Manager
City of Alameda
2263 Santa Clara Avenue
Alameda, CA 94501

Dear Juelle-Ann and Liz,

Public Financial Management, Inc. ("PFM" or the "Financial Advisor") in our role as financial advisor to the City of Alameda (the "City"), is pleased to present our evaluation of the financing process and sale of the City's Successor Agency (the "Successor Agency") to the Community Improvement Commission of the City of Alameda Subordinate Tax Allocation Refunding Bonds, Series 2014A (the "2014A Bonds") and Subordinate Taxable Tax Allocation Refunding Bonds, Series 2014B (the "2014B Bonds", and with the Series 2014A Bonds, the "2014 Bonds").

The 2014A Bonds (Tax-Exempt) were issued to refund the outstanding principal amounts of the City's Community Improvement Commission Insured Tax Allocation Bonds, Series 2003A1 (the "2003A1 Bonds"), the Subordinated Tax Allocation Bonds, Series 2003B (the "2003B Bonds"), and the Tax Allocation Refunding Bonds, Series 2003C (the "2003C Bonds"). The 2014B Bonds (Taxable) were issued to refund the outstanding principal amount of the City's Community Improvement Commission Insured Taxable Tax Allocation Bonds, Series 2003A2 (the "2003A2 Bonds"). The 2014 Bonds were sold on a negotiated basis on December 9, 2014, with Piper Jaffray & Co. (the "Underwriter") serving as the sole manager. There were several elements that made this a successful sale for the City:

- Opportune Market Timing: The City entered the market during a very low interest rate environment. The AAA Municipal Market Data Index ("AAA MMD") was near historical lows. It created a favorable environment for the City to sell its bonds.
- Low Cost of Borrowing: Due to the favorable market dynamics, the City received a combined True Interest Cost (TIC) of 3.63%, with an average life of 10.70 years.
- Debt Service Savings: The City achieved significant debt service savings through the refunding. Net present value savings totaled approximately \$9.4 million, nearly 16.1% of the total amount of refunded bonds. The refunding allowed the City to realize \$381,300 of annual cash flow savings through 2033, assuming a share of 31.0%.

The purpose of this letter and the attached Post-Pricing Book is to provide to the City a record of the financing process of the 2014 Bonds and to summarize and memorialize the results and the market conditions around the time of pricing.

Background

The 2003C Bonds were issued on October 28, 2003, and the 2003A1, 2003A2, and 2003B Bonds were issued on December 10, 2003, each for the purpose of financing and refinancing redevelopment and low and moderate income housing activities in the Merged WECIP/BWIP Project Area (the "Merged Project") of the Former Agency. The 2003C Bonds have a final maturity of February 1, 2032 and are currently callable as of February 1, 2013, without a premium. The 2003A1, 2003A2, and 2003B Bonds each have a final maturity of March 1, 2033 and are callable on March 1, 2015 without a premium.

Purpose

The 2014A Bonds (Tax-Exempt) were issued to refund the outstanding \$7,090,000 par amount of the 2003A1 Bonds, the outstanding \$8,485,000 par amount of the 2003B Bonds, and the outstanding \$14,920,000 par amount of the 2003C Bonds. The 2014B Bonds (Taxable) were issued to refund the outstanding \$28,120,000 par amount of the 2003A2 Bonds. Together, the Series 2014 Bonds were issued to refund a total outstanding \$58,165,000 par amount in order to achieve debt service savings.

A portion of the proceeds of the Bonds were also used to fund a debt service reserve fund for the Bonds, and provide for the costs of issuing the Bonds.

Structure

The 2014 Bonds are limited obligations of the Successor Agency, secured by and payable from Tax Revenues on a subordinate basis with the City's Community Improvement Commission 2011 Taxable Tax Allocation Housing Bonds, Subordinate Series A (Merged WECIP/BWIP Project Area) (the "2011A Bonds"), and its Community Improvement Commission 2011 Tax Allocation Housing Bonds, Subordinate Series B (Merged WECIP/BWIP Project Area) (the "2011B Bonds", and collectively with the "2011A Bonds", the "2011 Bonds").

The 2014 Bonds create uniform (level) annual debt service savings with principal amortizing from September 2015 to September 2033. All maturities are structured as serial bonds. The 2014 Bonds also have a 10-year call feature, allowing the City to call and refund the bonds, at par, on September 1, 2024. The cost of this call option is embedded in the True Interest Cost ("TIC") and All-in True Interest Cost ("All-in TIC").

Credit Enhancement

The scheduled payment of principal of and interest on the 2014A Bonds and on the 2014B Bonds maturing on September 1 of the years 2020 through 2026, inclusive, will be guaranteed under an insurance policy provided by Build America Mutual Assurance Company ("BAM") with an insurance premium of 37.8 bps.

The Reserve Account of the 2014 Bonds will also be funded with a Municipal Bond Debt Service Reserve Insurance Policy provided by BAM with a surety cost of 1.4%.

Credit Ratings

The 2014 Bonds were rated “AA” and “A+” by S&P for insured and uninsured maturities, respectively. The “A+” underlying rating was an improvement from “A-” rating received by the 2011 Bonds. The outlook for the 2014 Bonds is stable.

The credit strengths, as highlighted by the rating agency, are strong maximum annual debt service (MADS) coverage from tax increment generated by the merged project area and the City’s strong income levels and participation in the San Francisco metropolitan economy. The rating agency’s concerns include the concentration of the property tax base in the merged project area, the fluctuations in the project area’s assessed valuation (AV) due to pending appeals, and the Successor Agency’s indenture provision requesting that debt service is paid semi-annually rather than reserving 100% of debt service upfront on the refunding bonds.

The 2014 refunding is considered a credit positive as it reduces the City’s debt service of Tax Allocation Bonds. Below is a table summarizing the primary strengths and weaknesses highlighted in the credit rating reports.

Strengths	Weaknesses
<ul style="list-style-type: none">• Strong taxing area in a central location within the San Francisco Bay Area economy• Strong semi-annual coverage on the 2014 Bonds• Limited ability to issue additional debt	<ul style="list-style-type: none">• Moderate taxpayer concentration with significant outstanding assessment appeals• Refunding indenture provisions that do not require the agency to set aside full annual debt service on the 2014 bonds in the first half of every bond year

Pricing

On December 8th, the Underwriter circulated a preliminary scale with spreads for the Tax-Exempt 2014A Bonds that ranged from 65 bps to 75 bps over current AAA MMD rates. The preliminary scale for the Taxable 2014B Bonds included spreads that ranged from 40 bps to 196 bps over current Treasury rates.

The pricing schedule incorporated one order period, both retail and institutional on December 9th. The Underwriter opened the order period at 7:30 am (PST) on December 9th. Due to the strong demand for the 2014A Bonds (Tax-Exempt), especially the 2026-2027 maturities and the 2033 maturity, the Underwriter agreed to tighten spreads by 2-6 bps. While demand was not as strong for Series 2014B Bonds (Taxable), the Underwriter agreed to tighten spreads on the maturities with the greatest demand, specifically the 2016-2017 maturities and the 2026 maturity, by 3-5 bps.

Below is a table of the spread adjustments made from the beginning order period to the final pricing wire.

Series 2014A (Tax-Exempt) Pricing Scales

Maturity	Order Period Scale		Adjustments to Yield	Final Scale	
	Yield	Spread to MMD (12/8/14)		Yield	Spread to MMD (12/9/14)
2026	2.92%	65 bps	-6 bps	2.86%	64 bps
2027	3.03%	70 bps	-6 bps	2.97%	68 bps
2028	3.11%	73 bps	-5 bps	3.06%	72 bps
2029	3.18%	75 bps	-2 bps	3.16%	77 bps
2030	3.23%	75 bps	-2 bps	3.21%	77 bps
2031	3.28%	75 bps	-2 bps	3.26%	77 bps
2032	3.33%	75 bps	-5 bps	3.28%	74 bps
2033	3.38%	75 bps	-6 bps	3.32%	73 bps

Series 2014B (Taxable) Pricing Scales

Maturity	Order Period Scale		Adjustments to Yield	Final Scale	
	Yield	Spread to TRSY		Yield	Spread to TRSY
2015	0.54%	40 bps	0 bps	0.55%	40 bps
2016	1.24%	60 bps	-4 bps	1.18%	56 bps
2017	1.77%	70 bps	-5 bps	1.69%	65 bps
2018	2.17%	50 bps	0 bps	2.13%	50 bps
2019	2.62%	95 bps	0 bps	2.58%	95 bps
2020	2.87%	85 bps	0 bps	2.83%	85 bps
2021	3.27%	125 bps	0 bps	3.23%	125 bps
2022	3.46%	120 bps	0 bps	3.42%	120 bps
2023	3.66%	140 bps	0 bps	3.62%	140 bps
2024	3.86%	160 bps	0 bps	3.82%	160 bps
2025	4.06%	180 bps	0 bps	4.02%	180 bps
2026	4.21%	195 bps	-3 bps	4.14%	192 bps

Investor Relations

The City received approximately \$75 million in orders for the \$23 million of the Series 2014A Bonds (Tax-Exempt). See below for the list of investors who placed orders for the 2014A Bonds:

Subordinate Tax Allocation Refunding Bonds, Series 2014A		
Investors	Orders (\$000s)	Allotments (\$000s)
Vanguard Funds	\$23,495	\$9,370
Boston Company	13,510	5,090
Principal Financial Group Inc.	10,235	2,800
Breckenridge	7,060	1,950
Schwab Funds	6,100	1,300
Wells Capital Management	4,830	1,170
BOKI	4,000	-
Mainline West LLC	2,000	775
MKTI	2,000	590
BKCM	1,000	-
Payden	250	250
Nuveen Asset Management	200	-
Total	\$74,680	\$23,295

Source: Piper Jaffray & Co.

The City received approximately \$45 million in orders for the \$25 million of the Series 2014B (Taxable) Bonds. See below for the list of investors who placed orders for the 2014B Bonds:

Subordinate Taxable Tax Allocation Refunding Bonds, Series 2014B		
Investors	Orders (\$000s)	Allotments (\$000s)
MKTI	\$7,275	\$3,070
Wells Capital Management	6,275	3,030
Lind Capital Partners LLC	4,700	3,500
American Family Mutual Insurance Company	3,640	2,750
KING	3,640	890
BHII	3,590	3,175
PWJC	3,500	2,075
Breckenridge	3,145	1,820
City of Folsom	2,000	2,000
TOCQ	1,900	500
Worthington Partners	1,500	-
Clark Capital Management Group	1,000	1,000
FISA	900	245
CLSI	300	300
Belgard Capital	250	-
Humbolt Capital	250	-
Joseph Capital Holdings	250	-
Rosehill Capital Management L.L.	250	-
SWST	250	-
Total	\$44,615	\$24,355

Source: Piper Jaffray & Co.

Underwriter's Discount and Fees

Piper Jaffray & Co. served as the sole manager for the 2014 Bonds. The Underwriter's discount paid by the City totaled \$170,012.50, with \$82,232.50 paid for the 2014A Bonds and \$87,780.00 paid for the 204B Bonds. This represented a total fee of \$3.50 per bond.

Financing Results

The total debt service through the final maturity decreased by approximately \$23.45 million. On a net present value basis, total debt service decreased by approximately \$9.42 million, or 16.1% of the total amount of bonds refunded. Please see below for a table and graph comparing debt service before and after the refunding.

2014 Bonds Debt Service				
Maturity	Prior Debt Service	Refunding Debt Service	Savings	PV Savings
9/1/2015	\$4,972,701	\$3,738,154	\$1,234,547	\$1,259,103
9/1/2016	4,981,184	3,744,067	1,237,116	1,213,538
9/1/2017	4,982,500	3,746,706	1,235,794	1,174,677
9/1/2018	5,007,918	3,774,297	1,233,621	1,136,793
9/1/2019	5,005,402	3,772,103	1,233,299	1,101,465
9/1/2020	5,023,514	3,789,967	1,233,547	1,068,100
9/1/2021	5,018,397	3,785,903	1,232,494	1,034,482
9/1/2022	5,029,733	3,796,706	1,233,027	1,003,511
9/1/2023	5,036,730	3,800,633	1,236,097	975,411
9/1/2024	5,042,328	3,807,215	1,235,112	945,242
9/1/2025	5,055,688	3,820,750	1,234,938	916,763
9/1/2026	5,058,344	3,825,750	1,232,594	887,646
9/1/2027	5,064,888	3,832,000	1,232,888	861,399
9/1/2028	5,069,585	3,835,500	1,234,085	836,654
9/1/2029	5,077,498	3,842,000	1,235,498	812,869
9/1/2030	5,082,796	3,851,000	1,231,796	786,745
9/1/2031	5,089,028	3,852,000	1,237,028	766,782
9/1/2032	5,105,179	3,870,000	1,235,179	743,515
9/1/2033	4,778,405	3,543,750	1,234,655	716,855
Total	\$95,481,817	\$72,028,502	\$23,453,314	\$18,241,549

Below is a table comparing the estimated refunding numbers presented to the Successor Agency in September, to the actual refunding results.

	Expected	Actual
	As of September 2014 Oversight Board Meeting	As of December 9, 2014
Underlying Rating	A	A+
2014 Bonds Total Par Amount	\$57.72 million	\$48.575 million
2014 Bonds Total Debt Service	\$86.5 million	\$72.0 million
Annual Savings	\$475,000	\$1.23 million
Annual Savings for the City	\$118,750	\$381,300
Net Present Value Savings	\$6.00 million	\$9.42 million
True Interest Cost (TIC)	4.10%	3.63%
Reserve Fund	Cash Funded	Surety (1.4%)
Bond Insurance	75 bps Fee	37.8 bps Fee - Build America Mutual (BAM) Series 2014A; Series 2014B (2020-2026)

Description of Post-Pricing Book

In addition to our summary of the sale of the City's 2014 Bonds, we have also prepared a Post-Pricing book for the financing as described below. This Post-Pricing book is designed to offer historical context for the interest rates and to provide a record of the market and sales results. The Post-Pricing book is structured in the following manner for the 2014 Bonds:

- **Section I: Summary of the Transaction**
- **Section II: Official Statement**
- **Section III: Market Conditions**

This section describes market conditions prior to and during the sale of the 2014 Bonds.

- **Section IV: Rating Agency Reports**

This section contains copies of the rating agency letter and report.

- **Section V: Orders and Allotments**

This section contains the breakdown of orders and allotments by maturity and by investors.

- **Section VI: Pricing Analysis**

This section contains detailed pricing analysis of the 2014 Bonds. We have also included pricing analysis for comparable transactions in the market.

- **Section VII: Refunding Results**

This section contains a comparison of the expected savings as presented to the Successor Agency in September and the actual refunding results, including the total par amount and annual savings for the transaction.

- **Section VIII: Final Numbers**

This section contains a copy of the final numbers for the 2014 Bonds.

Conclusion

We greatly appreciate the opportunity to be of service to the City. The diligent and collective efforts of the City and its financing team allowed for the development of a prudent financing strategy that resulted in the successful issuance of the City's 2014 Bonds. We hope this book will be useful not only as a post-sale analysis, but also as a record of the sale for future reference. As always, we will be available to respond to any inquiries on the content of this memorandum and post-pricing book or on any part of the financing process with which we were involved.

Sincerely,

Sarah Hollenbeck
Public Financial Management, Inc.
Managing Director