



# Staff Report

## City of Manhattan Beach

**TO:** Members of the Finance Subcommittee

**FROM:** Bruce Moe, Finance Director  
Henry Mitzner, Controller

**DATE:** March 27, 2012

**SUBJECT:** Consideration of Refunding Plan for Current Outstanding Debt Issues for the Metlox Public Improvements (2003) and Water/Wastewater Improvements (1996)

**RECOMMENDATION:**

Staff recommends that the Finance Subcommittee approve the debt refunding plan for the Metlox Public Improvements and Water/Wastewater Improvements.

**FISCAL IMPLICATION:**

By taking advantage of the current interest rate environment, the City can achieve present value savings of \$1.12 million by refunding the existing Metlox Public Improvements and Water/Wastewater debt issues.

**BACKGROUND:**

The City has a total of \$37.6 million in outstanding debt. These obligations are as follows:

| <u>Description</u>          | <u>Type</u>                      | <u>Maturity</u> | <u>Original Amount</u> | <u>Amount Outstanding</u> | <u>Funding Source</u> |
|-----------------------------|----------------------------------|-----------------|------------------------|---------------------------|-----------------------|
| Police/Fire Facility        | Fixed Rate COP's                 | 2036            | \$ 12,980,000          | \$ 11,450,000             | General Fund          |
| Metlox*                     | Fixed Rate COP's                 | 2033            | \$ 13,350,000          | \$ 11,125,000             | Parking Fund          |
| Marine Avenue Sports Fields | Variable Rate w/Letter of Credit | 2032            | \$ 9,535,000           | \$ 7,480,000              | General Fund          |
| Public Safety Pension Bonds | Taxable Pension Obligation Bonds | 2014            | \$ 6,800,000           | \$ 2,870,000              | General Fund          |
| Water and Wastewater Bonds* | Fixed Rate COP's                 | 2026            | \$ 4,615,000           | \$ 3,240,000              | Water/Wastewater      |
| RCC Dispatch Center         | Variable Rate COP's              | 2031            | \$ 2,180,000           | \$ 1,445,000              | General Fund          |
|                             |                                  |                 | \$ 49,460,000          | \$ 37,610,000             |                       |

The annual debt service for these issues totals \$3,678,145. If the refunding plan for Metlox and Water/Wastewater is approved, the overall debt service would be reduced by approximately \$86,000.

**DISCUSSION:**

In line with the City Council Strategic Plan goals, staff has reviewed the City’s outstanding debt for potential refunding (refinancing) opportunities. The historically low interest rate environment has created the opportunity to reduce overall borrowing costs. Each of the debt issues are described below.

Police/Fire Facility

The Police/Fire Facility was completed in 2006 at a cost of \$41 million. The facility was funded through a combination of accumulated cash of \$28 million and \$12.98 million in bonds (certificates of participation or COP’s). The annual debt service is \$816,700 for fiscal year 2011-2012. The current net interest rate for this issue is 4.6%. These bonds cannot be called until January 2014. As a result, any refunding plan would include a defeasance of the existing bonds through the establishment of an escrow fund into which the equivalent of the future debt service payments would be placed until prepayment can be made in January 2014. While those funds earn interest, it will be less than the rate being paid, resulting in negative arbitrage. That negative arbitrage erodes savings from refunding. Because the escrow would need to remain in place until 2014, the negative arbitrage results in a net present value savings of just .62%. Therefore, staff does not recommend refunding these bonds at this time. However, this does not preclude refunding at a future date.

Metlox

Issued in 2003, the Metlox COP’s (\$13.35 million) were issued for the purpose of constructing the Metlox public parking facility and town square. Revenue from the Parking Fund is used to pay the annual debt service of \$860,200. The bonds are callable beginning in January 2013. Similar to the Police/Fire bonds, defeasance will require an escrow fund for the debt service due through that date. While there will also be negative arbitrage by refunding these bonds now, it will be less than that for the Police/Fire facility because the escrow will be necessary only until 2013. The present value savings through refunding these bonds is estimated at \$639,824 and will generate debt service savings of approximately \$46,000 annually while maintaining a similar amortization period. As a result, this bond issue is included in the proposed refunding plan.

Marine Avenue Sports Fields and South Bay Regional Public Communications Authority (RCC)

In 2002, the City borrowed \$9,535,000 to refinance existing debt on the newly built sports fields at Marine Avenue. In 2001, the City borrowed \$2.18 million to finance its portion of the RCC. The debt for both of these improvements is variable rate (reset weekly) based on an index and backed by letters of credit (LC’s) issued by Bank of America (the LC’s expire July 1, 2012). The current interest rate and associated fees for both issues are as follows:

|                           |                                       |
|---------------------------|---------------------------------------|
|                           | <u>Current terms (expires 7/1/12)</u> |
| Average variable interest | 30 basis points                       |
| Remarketing rate          | 9 basis points                        |
| Direct pay LOC            | <u>100 basis points</u>               |
| <br>Total Overall Costs   | <br>139 basis points (1.39%)          |

While the opportunity to lock-in a fixed rate seems attractive, the City's financial advisor and Finance staff believe that the current short term weekly rates are unlikely to rise significantly in the near term. Additionally, it is estimated that the Federal Funds rate would need to rise from the current .25% to 5% - 6% for the weekly variable rate to equate to the fixed rate attainable today (4%). Further, when RCC was issued in 2001 and Marine Avenue was refunded in 2002, variable rate debt was selected because the City's reserve policies meant that the City would always have in the investment portfolio an amount equal to or greater than the outstanding variable rate debt. The reserves served as a "sentinel" fund in that the earnings on those reserves would be equal to or greater than the weekly borrowing costs with the variable rate debt. Until recently, the City's portfolio yield exceeded that of the variable rate debt, making the variable rates attractive. While that positive spread is not currently present (the portfolio yield is approximately 1.10%), the marginal cost of that debt is still attractive. As rates rise, as they are expected to, staff believes that the City's portfolio will return to a positive stance compared to the weekly variable rates. For these reasons, staff recommends maintaining the variable rate debt for both the Marine Avenue Sports Fields and the RCC financings.

As previously mentioned, the current LC provider (Bank of America) has advised the City that it will no longer provide the LC due to the lack of a broader-based banking relationship with the City (the City's primary bank is Union Bank). The LC's for Marine Avenue and the RCC expire July 1, 2012. Staff is in contact with Union Bank to discuss their substituting an LC for those issued by Bank of America. The fees would be slightly lower than the current rates (75 basis points versus 100 basis points with Bank of America). Staff will return to the Finance Subcommittee with further details and approval once the details have been determined.

Pension Obligation Bonds

These bonds were issued in 2007 to pay off the City's CalPERS fixed "side fund" pension liabilities for the Police and Fire Departments. In doing so, the City saved approximately \$300,000 by reducing the interest rate associated with the unfunded liability from the CalPERS then assumed discount rate of 7.75%, to 5.01%. The original amortization period was retained, with the bonds maturing in 2014. The debt service is approximately \$1 million per year. These bonds cannot be refunded because there was no call provision in the original issue. However, final maturity is approaching in July 2014, at which time these bonds will be paid off, freeing-up approximately \$1 million.

Water and Wastewater

In September 1996, the City issued \$4,615,000 of debt to finance 1996 and 1997 enterprise fund projects related specifically to the water and wastewater systems. The bonds bear annual coupon interest between 5.3% and 5.8%, and mature in stages through 2026. The remaining principal and interest payments of the outstanding Certificates equal \$4,947,393 (\$3,240,000 in principal and \$1,707,393 in interest). Annual debt service through September 2026 for the remaining certificates range from \$321,000 to \$338,000. There is a legally required debt service reserve fund held by the bond trustee in the amount of \$338,571.

The present value savings through refunding these bonds is estimated to generate savings of \$40,000 annually while maintaining a similar amortization period. As a result, this bond issue is included in the proposed refunding plan.

Refunding Plan

In order to refund the City's debt, a new series of Certificates of Participation (COP's) will be issued as a General Fund lease. The allocation of the debt service to the appropriate funding source (e.g., Water, Wastewater and Parking funds) will occur internally by the Finance staff. Combining both issues into one General Fund master lease reduces the number of series of bonds necessary, eliminates the need for separate disclosure preparation, saves legal fees and reduces the overall cost of issuance. It also reduces the overall burden of administration. It will also result in a lower interest rate for the Water/Wastewater bonds than would otherwise be achieved through a separate issue since the bonds will be issued under the stronger credit of the City's General Fund, not the City's Water/Wastewater revenues.

This debt issuance will be a negotiated sale by the underwriter (Bank America Merrill Lynch). The negotiated sale approach provides flexibility to change structure, terms and timing of sale during the offering process to adapt to market conditions. It also allows for active pre-sale marketing activity. As has been the case for the past several debt issues, the underwriter will place a heavy emphasis on retail sales to the community to provide our residents an opportunity to support their hometown.

In order to complete this refunding program, the financing team will include a number of professional services. These include:

| <u>Role</u>               | <u>Firm</u>      | <u>Contact</u>             |
|---------------------------|------------------|----------------------------|
| Financial Advisor         | Loop Capital     | Mark Young                 |
| Underwriter               | Merrill Lynch    | Frank Lauterbur/Jeff Bower |
| Bond & Disclosure Counsel | Stradling Yocca  | Kevin Civale               |
| Trustee                   | U.S. Bank        | Fonda Hall                 |
| Rating Agency             | To be determined |                            |

Fees for these services (with the exception of the rating agency) are contingent upon the successful completion of the refunding. Additionally, there will be incidental fees associated with the issuance including publishing and posting of the Official Statement. A property appraisal may also be required. All of these fees will be paid with bond proceeds (with the exception of the appraisal), and are expected to total \$184,000.

The financing team consists of professionals who have worked with the City on a number of bond issues over the past ten or more years. They were originally selected through competitive processes and have provided excellent service and counsel with each bond issue. Staff recommends that the City continue to utilize this team given their in-depth knowledge of the City and its finances and outstanding service.

**CONCLUSION:**

Refunding the Metlox and Water/Wastewater debt is expected to result in present value savings of \$1.12 million, while maintaining similar amortization schedules. Staff expects the refunding to be completed within 90 days.

Attachment: Refunding Analyses

SAVINGS

Manhattan Beach  
 2012 COP Refunding (2003 Metlox Project)  
 \*\*\*Scenario 2\*\*\*  
 March 21, 2012

| Date       | Prior Debt Service | Prior Receipts | Prior Net Cash Flow | Refunding Debt Service | Refunding Receipts | Refunding Net Cash Flow | Present Value to 07/01/2012 Savings @ 3.5518374% |            |
|------------|--------------------|----------------|---------------------|------------------------|--------------------|-------------------------|--|------------|
| 01/01/2013 | 519,158.76         | 259,579.38     | 259,579.38          | 245,412.50             |                    | 245,412.50              | 14,166.88  |            |
| 01/01/2014 | 854,158.76         |                | 854,158.76          | 805,825.00             |                    | 805,825.00              | 48,333.76  |            |
| 01/01/2015 | 855,758.76         |                | 855,758.76          | 809,800.00             |                    | 809,800.00              | 45,958.76  |            |
| 01/01/2016 | 856,758.76         |                | 856,758.76          | 811,600.00             |                    | 811,600.00              | 45,158.76  |            |
| 01/01/2017 | 856,246.26         |                | 856,246.26          | 812,800.00             |                    | 812,800.00              | 43,446.26  |            |
| 01/01/2018 | 859,621.26         |                | 859,621.26          | 813,400.00             |                    | 813,400.00              | 46,221.26  |            |
| 01/01/2019 | 856,621.26         |                | 856,621.26          | 809,650.00             |                    | 809,650.00              | 46,971.26  |            |
| 01/01/2020 | 857,531.26         |                | 857,531.26          | 810,150.00             |                    | 810,150.00              | 47,381.26  |            |
| 01/01/2021 | 857,412.50         |                | 857,412.50          | 813,750.00             |                    | 813,750.00              | 43,662.50  |            |
| 01/01/2022 | 860,800.00         |                | 860,800.00          | 817,250.00             |                    | 817,250.00              | 43,550.00  |            |
| 01/01/2023 | 858,000.00         |                | 858,000.00          | 809,500.00             |                    | 809,500.00              | 48,500.00  |            |
| 01/01/2024 | 864,250.00         |                | 864,250.00          | 816,000.00             |                    | 816,000.00              | 48,250.00  |            |
| 01/01/2025 | 862,750.00         |                | 862,750.00          | 816,000.00             |                    | 816,000.00              | 46,750.00  |            |
| 01/01/2026 | 865,000.00         |                | 865,000.00          | 819,750.00             |                    | 819,750.00              | 45,250.00  |            |
| 01/01/2027 | 865,750.00         |                | 865,750.00          | 817,000.00             |                    | 817,000.00              | 48,750.00  |            |
| 01/01/2028 | 865,000.00         |                | 865,000.00          | 818,000.00             |                    | 818,000.00              | 47,000.00  |            |
| 01/01/2029 | 867,750.00         |                | 867,750.00          | 822,500.00             |                    | 822,500.00              | 45,250.00  |            |
| 01/01/2030 | 863,750.00         |                | 863,750.00          | 815,250.00             |                    | 815,250.00              | 48,500.00  |            |
| 01/01/2031 | 868,250.00         |                | 868,250.00          | 821,750.00             |                    | 821,750.00              | 46,500.00  |            |
| 01/01/2032 | 865,750.00         |                | 865,750.00          | 821,250.00             |                    | 821,250.00              | 44,500.00  |            |
| 01/01/2033 | 871,500.00         | 871,500.00     |                     | 819,000.00             | 822,500.00         | -3,500.00               | 3,500.00   |            |
|            | 17,751,817.58      | 1,131,079.38   | 16,620,738.20       | 16,545,637.50          | 822,500.00         | 15,723,137.50           | 897,600.70                                       | 636,723.10 |

Savings Summary

|                               |                   |
|-------------------------------|-------------------|
| PV of savings from cash flow  | 636,723.10        |
| Plus: Refunding funds on hand | 3,100.26          |
| <b>Net PV Savings</b>         | <b>639,823.36</b> |

RECOMMENDED  
 FOR REFUNDING

SAVINGS

Manhattan Beach  
 2012 COP Refunding (2002 Marine Sports Field COPs)  
 \*\*\*Scenario 2\*\*\*  
 March 21, 2012

| Date       | Prior Debt Service | Prior Receipts | Prior Net Cash Flow | Refunding Debt Service | Refunding Receipts | Refunding Net Cash Flow | Present Value to 07/01/2012 Savings @ 3.5518374% |
|------------|--------------------|----------------|---------------------|------------------------|--------------------|-------------------------|--|
| 01/01/2013 | 298,090.73         | 1,870.00       | 296,220.73          | 386,700.00             |                    | 386,700.00              | -90,479.27                                       |
| 01/01/2014 | 354,922.42         |                | 354,922.42          | 537,250.00             |                    | 537,250.00              | -182,327.58                                      |
| 01/01/2015 | 361,271.11         |                | 361,271.11          | 545,950.00             |                    | 545,950.00              | -184,678.89                                      |
| 01/01/2016 | 362,513.39         |                | 362,513.39          | 543,150.00             |                    | 543,150.00              | -180,636.61                                      |
| 01/01/2017 | 368,846.44         |                | 368,846.44          | 550,150.00             |                    | 550,150.00              | -181,303.56                                      |
| 01/01/2018 | 374,648.69         |                | 374,648.69          | 556,550.00             |                    | 556,550.00              | -181,901.31                                      |
| 01/01/2019 | 385,471.47         |                | 385,471.47          | 570,050.00             |                    | 570,050.00              | -184,578.53                                      |
| 01/01/2020 | 391,117.58         |                | 391,117.58          | 572,300.00             |                    | 572,300.00              | -181,182.42                                      |
| 01/01/2021 | 396,782.30         |                | 396,782.30          | 581,500.00             |                    | 581,500.00              | -184,717.70                                      |
| 01/01/2022 | 401,988.29         |                | 401,988.29          | 587,000.00             |                    | 587,000.00              | -185,011.71                                      |
| 01/01/2023 | 412,178.74         |                | 412,178.74          | 596,500.00             |                    | 596,500.00              | -184,321.26                                      |
| 01/01/2024 | 417,192.53         |                | 417,192.53          | 599,750.00             |                    | 599,750.00              | -182,557.47                                      |
| 01/01/2025 | 427,149.36         |                | 427,149.36          | 607,000.00             |                    | 607,000.00              | -179,850.64                                      |
| 01/01/2026 | 431,694.25         |                | 431,694.25          | 613,000.00             |                    | 613,000.00              | -181,305.75                                      |
| 01/01/2027 | 441,182.14         |                | 441,182.14          | 622,750.00             |                    | 622,750.00              | -181,567.86                                      |
| 01/01/2028 | 450,459.27         |                | 450,459.27          | 631,000.00             |                    | 631,000.00              | -180,540.73                                      |
| 01/01/2029 | 459,595.56         |                | 459,595.56          | 642,750.00             |                    | 642,750.00              | -183,154.44                                      |
| 01/01/2030 | 468,381.21         |                | 468,381.21          | 652,750.00             |                    | 652,750.00              | -184,368.79                                      |
| 01/01/2031 | 477,026.04         |                | 477,026.04          | 661,000.00             |                    | 661,000.00              | -183,973.96                                      |
| 01/01/2032 | 490,425.98         |                | 490,425.98          | 672,500.00             |                    | 672,500.00              | -182,074.02                                      |
| 01/01/2033 | 498,593.98         |                | 498,593.98          | 672,000.00             | 672,500.00         | -500.00                 | 499,093.98                                       |
|            | 8,669,531.48       | 1,870.00       | 8,667,661.48        | 12,401,600.00          | 672,500.00         | 11,729,100.00           | -3,061,438.52                                    |
|            |                    |                |                     |                        |                    |                         | -2,228,255.61                                    |

Savings Summary

|                               |                      |
|-------------------------------|----------------------|
| PV of savings from cash flow  | -2,228,255.61        |
| Plus: Refunding funds on hand | 1,561.53             |
| <b>Net PV Savings</b>         | <b>-2,226,694.08</b> |

NOT RECOMMENDED  
 FOR REFUNDING

SAVINGS

Manhattan Beach  
 2012 COP Refunding (1996 Water & Wastewater Project)  
 Scenario 2  
 March 21, 2012

| Date       | Prior Debt Service | Prior Receipts | Prior Net Cash Flow | Refunding Debt Service | Refunding Receipts | Refunding Net Cash Flow | Present Value to 07/01/2012 Savings @ 3.5518374% |
|------------|--------------------|----------------|---------------------|------------------------|--------------------|-------------------------|--|
| 01/01/2013 | 228,188.75         | 62,125.83      | 166,062.92          | 143,600.00             |                    | 143,600.00              | 23,633.60  |
| 01/01/2014 | 323,783.76         |                | 323,783.76          | 284,950.00             |                    | 284,950.00              | 40,848.70  |
| 01/01/2015 | 325,627.50         |                | 325,627.50          | 284,700.00             |                    | 284,700.00              | 41,348.42  |
| 01/01/2016 | 326,908.76         |                | 326,908.76          | 283,500.00             |                    | 283,500.00              | 42,104.40  |
| 01/01/2017 | 327,627.50         |                | 327,627.50          | 287,100.00             |                    | 287,100.00              | 38,173.30  |
| 01/01/2018 | 327,565.00         |                | 327,565.00          | 285,300.00             |                    | 285,300.00              | 38,259.01  |
| 01/01/2019 | 326,927.50         |                | 326,927.50          | 286,550.00             |                    | 286,550.00              | 35,413.85  |
| 01/01/2020 | 330,715.00         |                | 330,715.00          | 287,300.00             |                    | 287,300.00              | 36,541.39  |
| 01/01/2021 | 328,640.00         |                | 328,640.00          | 289,500.00             |                    | 289,500.00              | 32,060.68  |
| 01/01/2022 | 330,990.00         |                | 330,990.00          | 289,250.00             |                    | 289,250.00              | 32,816.10  |
| 01/01/2023 | 332,360.00         |                | 332,360.00          | 293,500.00             |                    | 293,500.00              | 29,683.40  |
| 01/01/2024 | 332,860.00         |                | 332,860.00          | 292,000.00             |                    | 292,000.00              | 29,975.80  |
| 01/01/2025 | 337,490.00         |                | 337,490.00          | 295,000.00             |                    | 295,000.00              | 30,003.40  |
| 01/01/2026 | 335,960.00         |                | 335,960.00          | 292,250.00             |                    | 292,250.00              | 29,690.76  |
| 01/01/2027 | 338,560.00         | 338,560.00     |                     | 294,000.00             | 295,000.00         | -1,000.00               | 625.67   |
|            | 4,854,203.77       | 400,685.83     | 4,453,517.94        | 4,188,500.00           | 295,000.00         | 3,893,500.00            | 481,178.46                                       |

Savings Summary

|                               |                   |
|-------------------------------|-------------------|
| PV of savings from cash flow  | 481,178.46        |
| Plus: Refunding funds on hand | 4,060.66          |
| <b>Net PV Savings</b>         | <b>485,239.12</b> |

RECOMMENDED  
 FOR REFUNDING

SAVINGS

Manhattan Beach  
 2012 COP Refunding (2001 Series C SBRPCA Variable Rate Bonds)  
 \*\*\*Scenario 2\*\*\*  
 March 21, 2012

| Date       | Prior Debt Service | Prior Receipts | Prior Net Cash Flow | Refunding Debt Service | Refunding Receipts | Refunding Net Cash Flow | Present Value to 07/01/2012 Savings @ 3.5518374% |
|------------|--------------------|----------------|---------------------|------------------------|--------------------|-------------------------|--|
| 01/01/2013 | 60,606.57          | 361.25         | 60,245.32           | 71,300.00              |                    | 71,300.00               | -11,054.68                                       |
| 01/01/2014 | 69,956.10          |                | 69,956.10           | 91,400.00              |                    | 91,400.00               | -21,443.90                                       |
| 01/01/2015 | 74,221.71          |                | 74,221.71           | 95,350.00              |                    | 95,350.00               | -21,128.29                                       |
| 01/01/2016 | 73,467.97          |                | 73,467.97           | 93,950.00              |                    | 93,950.00               | -20,482.03                                       |
| 01/01/2017 | 77,622.97          |                | 77,622.97           | 97,550.00              |                    | 97,550.00               | -19,927.03                                       |
| 01/01/2018 | 76,758.61          |                | 76,758.61           | 100,950.00             |                    | 100,950.00              | -24,191.39                                       |
| 01/01/2019 | 80,880.15          |                | 80,880.15           | 103,700.00             |                    | 103,700.00              | -22,819.85                                       |
| 01/01/2020 | 84,960.31          |                | 84,960.31           | 106,200.00             |                    | 106,200.00              | -21,239.69                                       |
| 01/01/2021 | 83,921.25          |                | 83,921.25           | 104,000.00             |                    | 104,000.00              | -20,078.75                                       |
| 01/01/2022 | 87,898.75          |                | 87,898.75           | 111,250.00             |                    | 111,250.00              | -23,351.25                                       |
| 01/01/2023 | 91,804.23          |                | 91,804.23           | 113,000.00             |                    | 113,000.00              | -21,195.77                                       |
| 01/01/2024 | 90,672.80          |                | 90,672.80           | 114,500.00             |                    | 114,500.00              | -23,827.20                                       |
| 01/01/2025 | 94,485.17          |                | 94,485.17           | 115,750.00             |                    | 115,750.00              | -21,264.83                                       |
| 01/01/2026 | 98,246.56          |                | 98,246.56           | 121,750.00             |                    | 121,750.00              | -23,503.44                                       |
| 01/01/2027 | 96,950.01          |                | 96,950.01           | 117,250.00             |                    | 117,250.00              | -20,299.99                                       |
| 01/01/2028 | 100,649.22         |                | 100,649.22          | 122,750.00             |                    | 122,750.00              | -22,100.78                                       |
| 01/01/2029 | 104,256.73         |                | 104,256.73          | 127,750.00             |                    | 127,750.00              | -23,493.27                                       |
| 01/01/2030 | 107,802.02         |                | 107,802.02          | 132,250.00             |                    | 132,250.00              | -24,447.98                                       |
| 01/01/2031 | 111,275.32         | 158,476.13     | -47,200.81          | 131,250.00             | 132,250.00         | -1,000.00               | -46,200.81                                       |
|            | 1,666,436.45       | 158,837.38     | 1,507,599.07        | 2,071,900.00           | 132,250.00         | 1,939,650.00            | -432,050.93                                      |
|            |                    |                |                     |                        |                    |                         | -308,523.28                                      |

Savings Summary

|                               |             |
|-------------------------------|-------------|
| PV of savings from cash flow  | -308,523.28 |
| Plus: Refunding funds on hand | -3,763.28   |
| Net PV Savings                | -312,286.56 |

NOT RECOMMENDED  
 FOR REFUNDING

CONFIDENTIAL  
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