

April 16, 2019

Sale Day Report for

City of Mendota Heights, Minnesota

\$7,000,000 General Obligation Capital Improvement
Plan Bonds, Series 2019A

MENDOTA HEIGHTS *Minnesota*

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Sale Day Report – April 16, 2019

City of Mendota Heights, Minnesota

\$7,000,000 General Obligation Capital Improvement Plan Bonds, Series 2019A

Purpose: Financing the remodeling and expansion of the fire station.

Rating: S&P Global Ratings "AAA"

Number of Bids: 8

Low Bidder: Piper Jaffray, Minneapolis, Minnesota

Comparison from Lowest to Highest Bid: (TIC as bid)	Low Bid	High Bid	Interest Difference
	2.5264%	2.9354%	\$327,995

Summary of Sale Results:	
Principal Amount*:	\$7,000,000
Underwriter's Discount:	\$41,238
Reoffering Premium:	\$401,409
True Interest Cost:	2.5338%
Costs of Issuance:	\$65,840
Yield:	1.65%-2.65%
Total Net P&I	\$

Notes: The City will retain the \$401,409 premium to increase the net proceeds for the project.

Bond Trust Services Corporation, Roseville, Minnesota will serve as Paying Agent on the Bonds.

Closing Date: May 8, 2019

City Council Action: Adopt a resolution awarding the sale of \$7,000,000 General Obligation Capital Improvement Plan Bonds, Series 2019A.

Attachments:

- Bid Tabulation
- Sources and Uses of Funds
- Updated Debt Service Schedules
- Rating Report
- Bond Resolution (Distributed in City Council Packets)



BID TABULATION

\$7,000,000 General Obligation Capital Improvement Plan Bonds, Series 2019A

City of Mendota Heights, Minnesota

SALE: April 16, 2019

AWARD: PIPER JAFFRAY

Rating: S&P Global Ratings "AAA"

Tax Exempt - Bank Qualified

NAME OF BIDDER	MATURITY (February 1)	RATE	REOFFERING YIELD	PRICE	NET INTEREST COST	TRUE INTEREST RATE
PIPER JAFFRAY				\$7,364,013.10	\$1,673,767.46	2.5264%
Minneapolis, Minnesota	2021	4.000%	1.650%			
Cantor Fitzgerald	2022	4.000%	1.700%			
	2023	4.000%	1.750%			
	2024	4.000%	1.800%			
	2025	4.000%	1.850%			
	2026	4.000%	1.900%			
	2027	3.000%	2.000%			
	2028	3.000%	2.050%			
	2029	3.000%	2.150%			
	2030	3.000%	2.250%			
	2031	3.000%	2.350%			
	2032	3.000%	2.450%			
	2033	3.000%	2.500%			
	2034	3.000%	2.600%			
	2035	3.000%	2.650%			

* Subsequent to bid opening the individual maturity amounts were adjusted.

Adjusted Price - \$7,360,171.55 Adjusted Net Interest Cost - \$1,705,318.87 Adjusted TIC - 2.5338%

NAME OF BIDDER	MATURITY (February 1)	RATE	REOFFERING YIELD	PRICE	NET INTEREST COST	TRUE INTEREST RATE
SUNTRUST ROBINSON HUMPHREY Nashville, Tennessee				\$7,350,630.85	\$1,687,149.71	2.5497%
BAIRD Milwaukee, Wisconsin				\$7,343,121.90	\$1,694,658.66	2.5628%
FTN FINANCIAL CAPITAL MARKETS Memphis, Tennessee				\$7,235,894.90	\$1,694,571.77	2.5753%
NORTHLAND SECURITIES, INC. Minneapolis, Minnesota				\$7,294,833.55	\$1,742,947.01	2.6475%
RAYMOND JAMES & ASSOCIATES, INC. Memphis, Tennessee				\$7,319,925.35	\$1,752,642.71	2.6583%
BNY MELLON CAPITAL MANAGEMENT Pittsburgh, Pennsylvania				\$7,740,590.80	\$1,940,678.64	2.8307%
IFS SECURITIES Atlanta, Georgia				\$7,679,507.25	\$2,001,762.19	2.9354%

Mendota Heights, Minnesota

\$7,000,000 General Obligation CIP Bonds, Series 2019A

Sources & Uses

Dated 05/08/2019 | Delivered 05/08/2019

Sources Of Funds

Par Amount of Bonds	\$7,000,000.00
Reoffering Premium	401,409.05
Total Sources	\$7,401,409.05

Uses Of Funds

Total Underwriter's Discount (0.589%)	41,237.50
Costs of Issuance	65,840.00
Deposit to Project Fund	7,294,331.55
Total Uses	\$7,401,409.05

Mendota Heights, Minnesota

\$7,000,000 General Obligation CIP Bonds, Series 2019A

Net Debt Service Schedule

Date	Principal	Coupon	Interest	Total P+I	Net New D/S	Fiscal Total
05/08/2019	-	-	-	-	-	-
02/01/2020	-	-	170,840.42	170,840.42	170,840.42	170,840.42
08/01/2020	-	-	116,925.00	116,925.00	116,925.00	-
02/01/2021	360,000.00	4.000%	116,925.00	476,925.00	476,925.00	593,850.00
08/01/2021	-	-	109,725.00	109,725.00	109,725.00	-
02/01/2022	375,000.00	4.000%	109,725.00	484,725.00	484,725.00	594,450.00
08/01/2022	-	-	102,225.00	102,225.00	102,225.00	-
02/01/2023	390,000.00	4.000%	102,225.00	492,225.00	492,225.00	594,450.00
08/01/2023	-	-	94,425.00	94,425.00	94,425.00	-
02/01/2024	405,000.00	4.000%	94,425.00	499,425.00	499,425.00	593,850.00
08/01/2024	-	-	86,325.00	86,325.00	86,325.00	-
02/01/2025	420,000.00	4.000%	86,325.00	506,325.00	506,325.00	592,650.00
08/01/2025	-	-	77,925.00	77,925.00	77,925.00	-
02/01/2026	435,000.00	4.000%	77,925.00	512,925.00	512,925.00	590,850.00
08/01/2026	-	-	69,225.00	69,225.00	69,225.00	-
02/01/2027	455,000.00	3.000%	69,225.00	524,225.00	524,225.00	593,450.00
08/01/2027	-	-	62,400.00	62,400.00	62,400.00	-
02/01/2028	470,000.00	3.000%	62,400.00	532,400.00	532,400.00	594,800.00
08/01/2028	-	-	55,350.00	55,350.00	55,350.00	-
02/01/2029	480,000.00	3.000%	55,350.00	535,350.00	535,350.00	590,700.00
08/01/2029	-	-	48,150.00	48,150.00	48,150.00	-
02/01/2030	495,000.00	3.000%	48,150.00	543,150.00	543,150.00	591,300.00
08/01/2030	-	-	40,725.00	40,725.00	40,725.00	-
02/01/2031	510,000.00	3.000%	40,725.00	550,725.00	550,725.00	591,450.00
08/01/2031	-	-	33,075.00	33,075.00	33,075.00	-
02/01/2032	525,000.00	3.000%	33,075.00	558,075.00	558,075.00	591,150.00
08/01/2032	-	-	25,200.00	25,200.00	25,200.00	-
02/01/2033	545,000.00	3.000%	25,200.00	570,200.00	570,200.00	595,400.00
08/01/2033	-	-	17,025.00	17,025.00	17,025.00	-
02/01/2034	560,000.00	3.000%	17,025.00	577,025.00	577,025.00	594,050.00
08/01/2034	-	-	8,625.00	8,625.00	8,625.00	-
02/01/2035	575,000.00	3.000%	8,625.00	583,625.00	583,625.00	592,250.00
Total	\$7,000,000.00	-	\$2,065,490.42	\$9,065,490.42	\$9,065,490.42	-

Mendota Heights, Minnesota

\$7,000,000 General Obligation CIP Bonds, Series 2019A

Debt Service Schedule

Date	Principal	Coupon	Interest	Total P+I	105% Overlevy
02/01/2020	-	-	170,840.42	170,840.42	179,382.44
02/01/2021	360,000.00	4.000%	233,850.00	593,850.00	623,542.50
02/01/2022	375,000.00	4.000%	219,450.00	594,450.00	624,172.50
02/01/2023	390,000.00	4.000%	204,450.00	594,450.00	624,172.50
02/01/2024	405,000.00	4.000%	188,850.00	593,850.00	623,542.50
02/01/2025	420,000.00	4.000%	172,650.00	592,650.00	622,282.50
02/01/2026	435,000.00	4.000%	155,850.00	590,850.00	620,392.50
02/01/2027	455,000.00	3.000%	138,450.00	593,450.00	623,122.50
02/01/2028	470,000.00	3.000%	124,800.00	594,800.00	624,540.00
02/01/2029	480,000.00	3.000%	110,700.00	590,700.00	620,235.00
02/01/2030	495,000.00	3.000%	96,300.00	591,300.00	620,865.00
02/01/2031	510,000.00	3.000%	81,450.00	591,450.00	621,022.50
02/01/2032	525,000.00	3.000%	66,150.00	591,150.00	620,707.50
02/01/2033	545,000.00	3.000%	50,400.00	595,400.00	625,170.00
02/01/2034	560,000.00	3.000%	34,050.00	594,050.00	623,752.50
02/01/2035	575,000.00	3.000%	17,250.00	592,250.00	621,862.50
Total	\$7,000,000.00	-	\$2,065,490.42	\$9,065,490.42	\$9,518,764.94

Significant Dates

Dated	5/08/2019
First Coupon Date	2/01/2020

Yield Statistics

Bond Year Dollars	\$65,398.89
Average Life	9.343 Years
Average Coupon	3.1582959%
Net Interest Cost (NIC)	2.6075655%
True Interest Cost (TIC)	2.5338614%
Bond Yield for Arbitrage Purposes	2.2088710%
All Inclusive Cost (AIC)	2.6473919%

IRS Form 8038

Net Interest Cost	2.4288378%
Weighted Average Maturity	9.257 Years

Mendota Heights, Minnesota

\$7,000,000 General Obligation CIP Bonds, Series 2019A

Detail Costs Of Issuance

Dated 05/08/2019 | Delivered 05/08/2019

COSTS OF ISSUANCE DETAIL

Municipal Advisor	\$37,950.00
Bond Counsel (Briggs and Morgan)	\$13,000.00
Rating Agency Fee (S&P)	\$13,500.00
Paying Agent (Bond Trust Services)	\$800.00
Dakota County Fee	\$390.00
Post Issuance Compliance Fee	\$200.00
TOTAL	\$65,840.00

Summary:

Mendota Heights, Minnesota; General Obligation

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Mendota Heights, Minnesota; General Obligation

Credit Profile

US\$7.0 mil GO bonds ser 2019A dtd 05/08/2019 due 02/01/2035		
<i>Long Term Rating</i>	AAA/Stable	New
Mendota Heights GO bonds ser 2018A dtd 11/01/2018 due 02/01/2021-2030		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Mendota Heights GO rfdg bonds		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Mendota Heights GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Mendota Heights GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AAA' long-term rating to Mendota Heights, Minn.'s series 2019A general obligation (GO) capital improvement bonds. At the same time, we affirmed our 'AAA' long-term rating on the city's previously issued GO debt. The outlook is stable.

A pledge of the city's full-faith-credit-and-resources and an agreement to levy ad valorem property taxes without limitation as to rate or amount secures the bonds. The city intends to issue approximately \$7 million in GO debt and proceeds will be used to expand and remodel the city's existing fire station.

The city's GO bonds are eligible to be rated above the sovereign because we believe the city can maintain better credit characteristics than the U.S. can in a stress scenario. Under our criteria, "Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions" (published Nov. 19, 2013, on RatingsDirect), U.S. local governments are considered to have moderate sensitivity to country risk. The institutional framework in the U.S. is predictable for local governments, allowing them significant autonomy, independent treasury management, and no history of government intervention.

Mendota Heights is a wealthy suburb located just south of St. Paul. Due to its strong and embedded financial management policies and practices, it has maintained strong financial performance and very strong available reserves near 100% of general fund expenditures. The city continues to experience increasing home values and economic growth, and we expect this to continue during the next few fiscal years. In addition, we believe financial performance and reserves will remain strong as the city is not currently not experiencing any significant budgetary pressures.

The 'AAA' rating is based on our opinion of the city's:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);

Summary: Mendota Heights, Minnesota; General Obligation

- Strong management, with good financial policies and practices under our Financial Management Assessment methodology;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2017;
- Very strong budgetary flexibility, with a high available fund balance in fiscal 2017 of 105% of operating expenditures;
- Very strong liquidity, with total government available cash at 101.4% of total governmental fund expenditures and 6.7x governmental debt service, and access to external liquidity we consider strong;
- Weak debt and contingent liability position, with debt service carrying charges at 15.2% of expenditures and net direct debt that is 172.8% of total governmental fund revenue, but rapid amortization, with 69.7% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Very strong economy

We consider Mendota Heights' economy very strong. The city, with an estimated population of 11,036, is located in Dakota County in the Minneapolis-St. Paul-Bloomington MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 211% of the national level and per capita market value of \$192,109. Overall, the city's market value grew by 2.6% over the past year to \$2.1 billion in 2018. The county unemployment rate was 3.0% in 2017.

The 10-square-mile city is located approximately two miles south of St. Paul. The city's tax base is primarily residential (68%) and commercial/industrial (27%). Net tax capacity has recovered since the recession, with six consecutive years of growth since 2012, indicating stabilization in the housing market and property values and reflecting positive trends in the wider Twin Cities MSA. Officials expect this growth to continue, estimating another increase in market value of approximately 8.9%. Based on improving residential values, along with new residential development, we expect the city's property values to continue to improve and the area economy to remain very strong.

Strong management

We view the city's management as strong, with good financial policies and practices under our Financial Management Assessment methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

In developing its budget, the city examines up to three years of historical information and uses line-item budgeting. In addition, the city provides quarterly budget-to-actual updates to the city council regarding budgeting performance, and the council can amend the budget if needed. In 2016, the city developed a 10-year long-term financial plan, which it continues to use as a guide for future financial planning. While this plan is not currently updated annually, the city is currently working on updating the plan. It also annually updates a five-year capital improvement plan that identifies sources and uses of funds.

Mendota Heights has its own investment policy and reports its holdings and performance monthly. It does not have its own debt management policy but adheres to state guidelines. The city recently revised its formal reserve policy, which

now requires the city to hold at least 75% of operating expenditures to support cash flow needs based on the timing of the receipt of tax revenues. The city has exceeded this level historically, and we expect it will continue to do so. The most recent revision to the policy increased the minimum percentage of expenditures from 65%.

Strong budgetary performance

Mendota Heights' budgetary performance is strong in our opinion. The city had operating surpluses of 15% of expenditures in the general fund and of 14.6% across all governmental funds in fiscal 2017. Although we expect budgetary performance to remain strong, our assessment accounts for the fact that we believe the city will likely not experience a surplus of more than 5% of expenditures during the next two fiscal years.

The city outperformed its budget in fiscal 2017, posting a \$1.1 million operating surplus in the general fund. Contributing to this result were higher-than-budgeted licensing and permit fees. In addition, the city's police department recorded lower expenditures in part due to an open captain position that was unfilled during the year and lower street department expenditures.

Based on preliminary results for fiscal 2018, management again expects to outperform its budget and projects a surplus of at least \$500,000. Licenses and permit revenue is came in better than budgeted and the city still had vacancies in its police department resulting in expenditures coming in lower than budgeted. With regard to total governmental funds performance, we expect a positive result, similar to those of previous years. While we expect the city's ongoing trend of positive operating results to continue in 2018, we anticipate the surplus to be smaller than it was in 2017.

For fiscal 2019, we understand the city has adopted a 9.82% levy increase and expects to use approximately \$300,000 of general fund reserves to pay for capital purchases. Property taxes typically account for roughly three-quarters of general fund revenue. Given the city's growing tax base and the lack of expenditure pressure, we expect budgetary performance to remain strong.

Very strong budgetary flexibility

Mendota Heights' budgetary flexibility is very strong, in our view, with a high available fund balance in fiscal 2017 of 105% of operating expenditures, or \$8 million. We expect the available fund balance to remain above 75% of expenditures for the current and next fiscal years, which we view as a positive credit factor.

We expect the city to maintain reserves in excess of 75% of general fund expenditures, even as the council plans to use \$300,000 of reserves in 2019 for equipment purchases. Our expectation is based on the city's trend of adopting balanced budgets and exceeding revenue forecasts, and its recent revision of its fund balance policy requiring it to maintain 75% in reserve. The city strives to maintain high general fund reserves to provide for cash flow requirements and contingency needs because it receives its major revenues (including property taxes) in the second half of its fiscal year.

Very strong liquidity

In our opinion, Mendota Heights' liquidity is very strong, with total government available cash at 101.4% of total governmental fund expenditures and 6.7x governmental debt service in 2017. In our view, the city has strong access to external liquidity if necessary.

The city's total unrestricted cash holdings exceed \$10.6 million, and given its strong trend of positive operating results and commitment to maintain a very high level of reserves, we do not expect its cash position to change significantly over the next two years. Most investments are held in money-market accounts and highly rated securities. We believe the city has no significant outstanding contingent liabilities, including no outstanding direct-placement or privately purchased debt.

Weak debt and contingent liability profile

In our view, Mendota Heights' debt and contingent liability profile is weak. Total governmental fund debt service is 15.2% of total governmental fund expenditures, and net direct debt is 172.8% of total governmental fund revenue. Approximately 69.7% of the direct debt is scheduled to be repaid within 10 years, which is in our view a positive credit factor. Including the 2019 GO bonds, the city has approximately \$20.7 million in net direct debt. Following this issuance, the city intends to issue up to \$1.7 million in additional GO debt this year for street projects. The city typically issues GO bonds annually for street improvements. It may also issue additional debt in 2021 for a new fire truck. Overall, we expect the city's debt profile to remain weak. Mendota Heights' combined required pension and actual other postemployment benefits (OPEB) contributions totaled 4.6% of total governmental fund expenditures in 2017. Of that amount, 3.7% represented required contributions to pension obligations, and 0.9% represented OPEB payments. The city made its full annual required pension contribution in 2017.

The city participates in cost-sharing multiple-employer defined-benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund (GERF) and the Public Employees Police and Fire Fund (PEPFF). The city's annual required pension contribution to both GERF and PEPFF is determined by state statute and is based on a percentage of payroll. Contributions are not based on an actuarial determined contribution, and have not been keeping up with the plan's increasing liabilities, which indicates that employer contributions may rise in the future.

Using reporting standards in accordance with Governmental Accounting Standard Board (GASB) Statement Nos. 67 and 68, the city's proportionate share of the net pension liability as of 2017 was \$1.8 million for GERF and \$2 million for PEPFF. The most recent GASB valuations showed plan funding ratios of 75.9% for GERF and 85.4% for PEPFF as of June 30, 2017. The city's total contribution to PERA is a small percentage of its total budget. If contribution rates were to rise, we expect the city would have the ability to manage the increase, given its historically strong operating results, willingness and ability to raise its tax levy to cover growing costs, and strong management.

Eligible retirees have the option to purchase health insurance through the city at their own expense. As a result, a portion of the city's contributions to its health care plan for active employees constitutes an implicit subsidy on behalf of these retirees.

Strong institutional framework

The institutional framework score for Minnesota cities with a population greater than 2,500 is strong.

Outlook

The stable outlook reflects our view that Mendota Heights will likely maintain its very strong budgetary flexibility,

Summary: Mendota Heights, Minnesota; General Obligation

liquidity, and economic profile, given its growing tax base and strong management policies. As a result, we do not expect to revise the rating within the two-year outlook period.

Downside scenario

While we believe this is unlikely, we could lower the rating if the city experienced sustained deterioration in financial performance, or if the city were to significantly draw down its available general fund reserves.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

Summary: Mendota Heights, Minnesota; General Obligation

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