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# **Update on Municipal Market and Airport 2004 Auction Rate Securities**

City Council Meeting

Finance Department  
February 12, 2008

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# Update on Municipal Market

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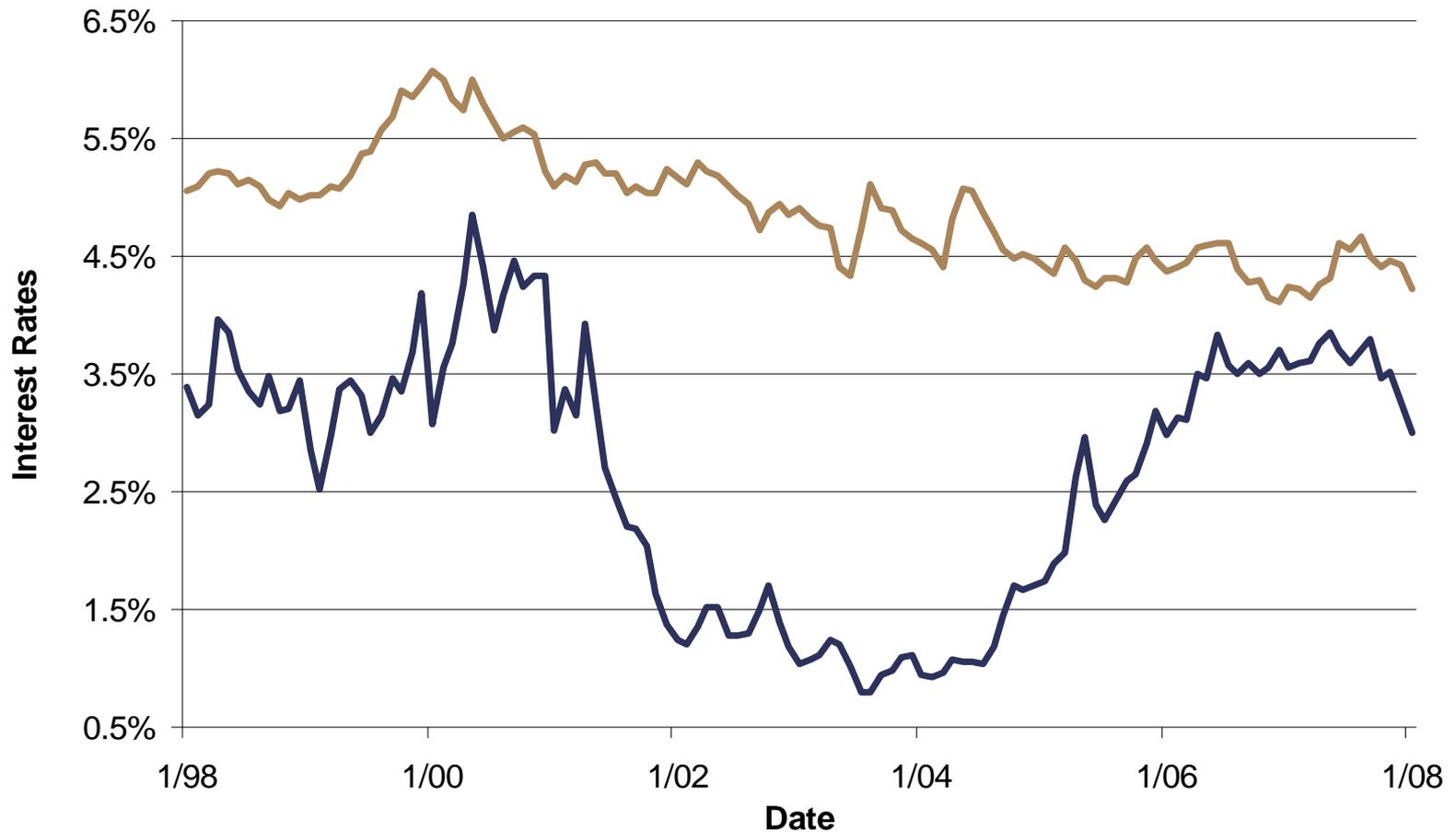
- Global reaction to subprime mortgages
- Some market segments experiencing liquidity disruptions
- Recent downgrades of several bond insurers have shaken investor confidence
- Investors demanding higher rates for bonds insured by certain bond insurers (XL Capital, Ambac, MBIA)

# Market Disruption's Impact on City

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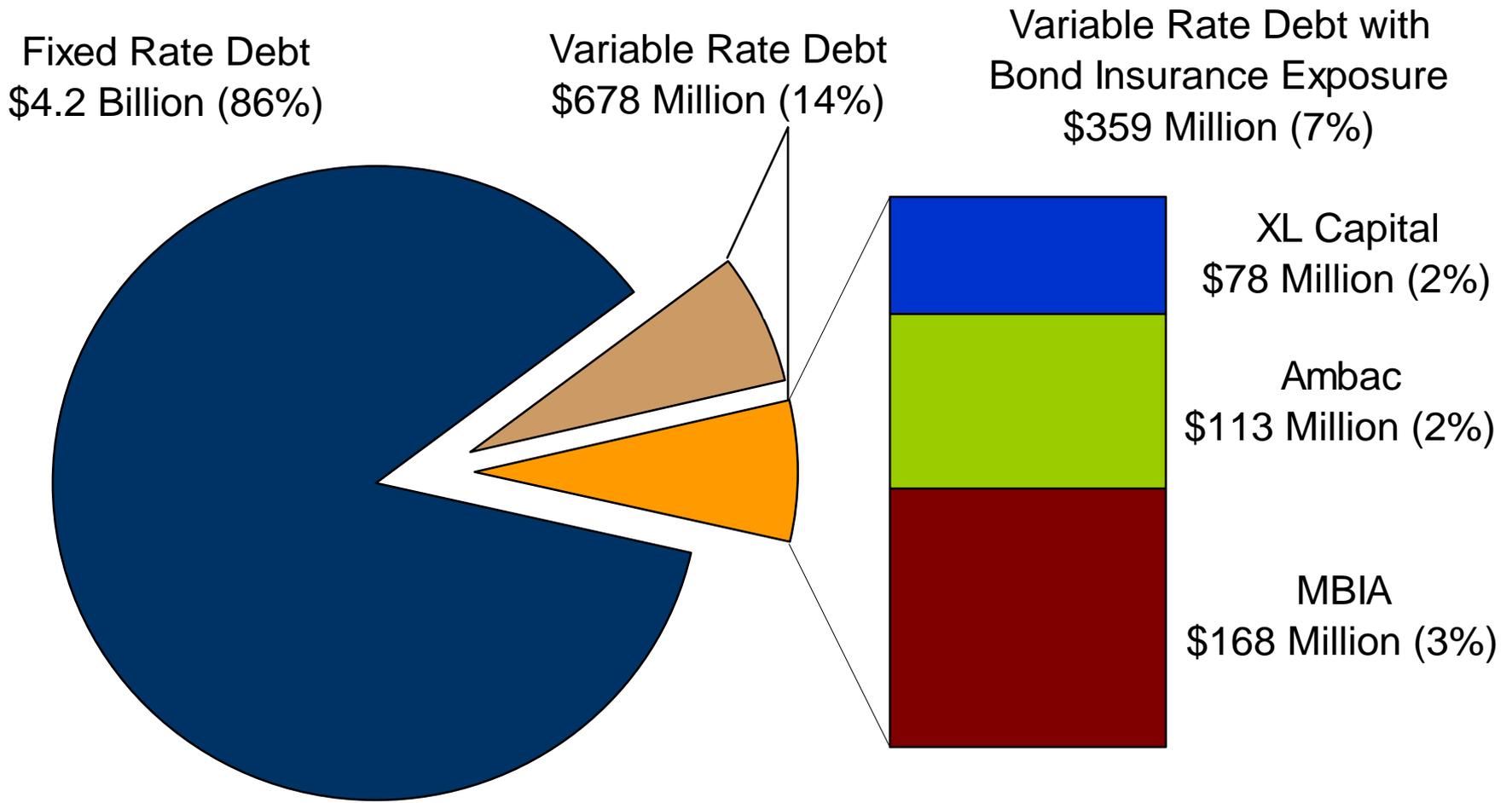
- No impact on the City's outstanding fixed rate bonds
- Bond insurer downgrades are impacting the interest rate the City pays on its outstanding variable rate bonds

# Historical Fixed Rate vs. Variable Rate Interest Rate Comparison (10 Years)



**Municipal Indices**  
— Variable Rate — Fixed Rate

# Current Debt Portfolio \$4.9 Billion



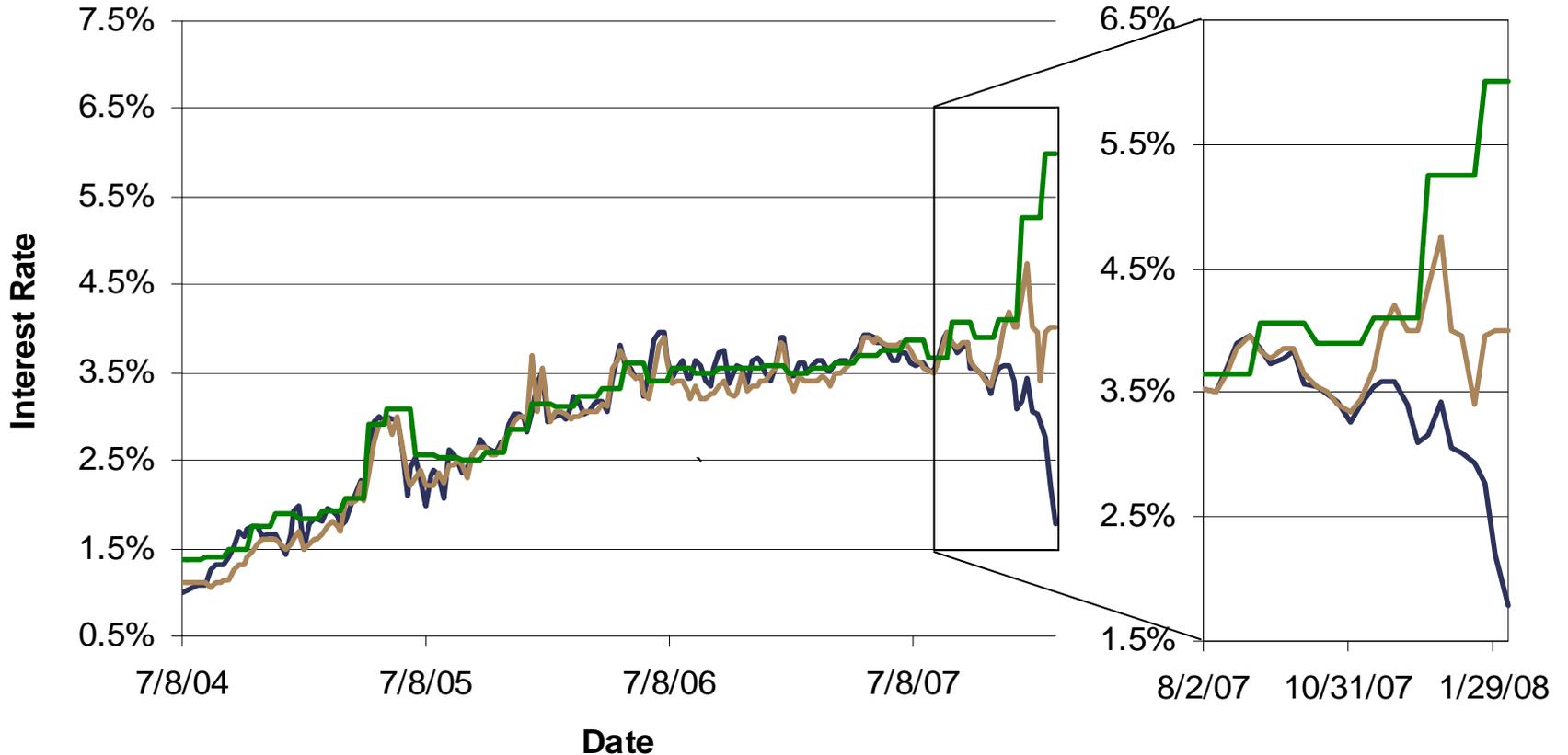
# **Airport 2004 Auction Rate Bonds**

## **Alternative Solutions for Considerations**

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- Two series of bonds outstanding with separate designated broker-dealers
  - Series 2004A – Citigroup auction period is 7 days
  - Series 2004B – Lehman auction period is 35 days
- Immediate action requested in attempt to minimize the negative impact of the credit disruption in the municipal market

# Airport 2004 Auction Rate Bonds Historical Interest Rate Comparison



**Municipal Index**  
— Variable Rate

**Airport Bonds**  
— 2004A (7-Day)      — 2004B (35-Day)

# Airport 2004 Auction Rate Bonds

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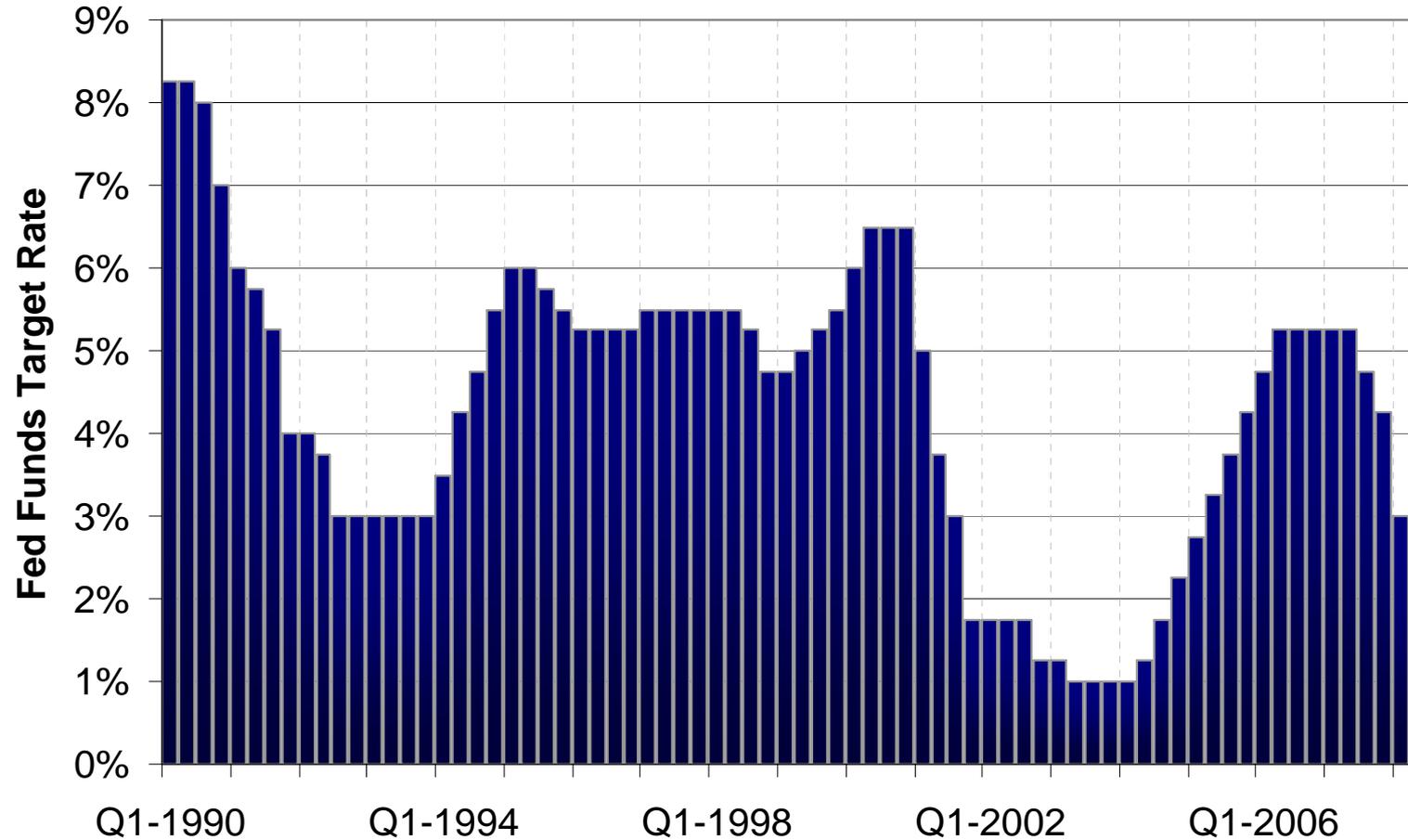
- Interim solutions to current market disruption
  - Open the 2004A/B Bond auctions to both broker-dealers
  - Convert 35-day auction bonds to 7-day auction bonds
- Long-term solution alternatives
  - Converting to variable rate demand bonds
  - Converting to fixed rate bonds
  - “Taking Out” with commercial paper
  - Purchasing the bonds or portion to hold in the City’s Investment Pool

# Summary

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- Current disruption in the municipal market require restructuring a portion of the City's debt portfolio
- No impact on 93% of the City's debt portfolio
- Staff is working on long-term solution alternatives

# Fed Funds Target Rate History



# US Treasury Yield Curve Shift (12/29/06 to 2/11/08)

