



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Scott P. Johnson

**SUBJECT: APPROVAL OF ISSUANCE OF
AIRPORT REVENUE BONDS
SERIES 2004A, 2004B, 2004C &
2004D**

DATE: May 25, 2004

Approved

Date

COUNCIL DISTRICT: City-Wide

SUPPLEMENTAL

REASON FOR SUPPLEMENTAL MEMORANDUM

To transmit Preliminary Official Statements for the City of San Jose Airport Revenue Bonds Series 2004 A/B and Series 2004 C/D (the "Bonds") and provide updated status on financing.

DOCUMENTS RELATED TO THE FINANCING

As discussed in the May 14, 2004, staff report, attached are copies of the draft Preliminary Official Statements for the above referenced financings. The separate attachment Appendix A is an attachment to both Preliminary Official Statements. Upon distribution of both Preliminary Official Statements, Appendix A will be part of each final document.

If any Council Member has any personal knowledge that any of the material information in the Official Statement is false or misleading, City staff, bond counsel, and the financial advisor will be available at the City Council meeting on June 1, 2004, to address any questions, issues and/or concerns.

Additionally, the following documents are on file in the City Clerk's Office:

- Third Supplemental Trust Agreement
- Fourth Supplemental Trust Agreement
- Continuing Disclosure Agreements (2)
- Bond Purchase Contracts (3)
- Auction Agreement

- Broker-Dealer Agreements (2)
- Market Agent Agreements (2)

These documents are described in the staff report and are presented for City Council approval in substantially final form.

STATUS UPDATE ON PLAN OF FINANCE

Specific Terms for Fixed Rate Bonds

The May 14, 2004 staff report indicates that the expected final maturity of the 2004 Fixed Rate Bonds is March 1, 2024. In order to provide flexibility during the pricing of the Bonds, the resolution includes the authority for the Director of Finance to set the final maturity date no later than March 1, 2034. Additionally, the resolution provides the authority to the Director of Finance to negotiate the sale of the 2004 Fixed Rate Bonds at a true interest cost not to exceed 6.5% for each series of fixed rate bonds.

Underwriting Team

Citigroup and Lehman Brothers are serving as the broker dealers on the Series 2004 A/B Bonds and as co-senior managers in the Series 2004 C/D Bonds as described in the staff report. Additionally, three firms have been added as co-managers to the underwriting team for the 2004 Fixed Rate Bonds. These firms were selected from Airport's Master Plan Financing Underwriting Pool as previously approved by the City Council. These firms include E.J. De La Rosa, Merrill Lynch & and Morgan Stanley.

Bond Insurance Bids

The City received bond insurance bids from five AAA-rated bond insurers. The bids were very competitive and the insurance premium bids came in much lower than expected. The all-in present value of bond insurance costs to maturity of the Series 2004 Bonds from the bond insurance bids ranged from approximately \$1.5 million to \$3.3 million. MBIA offered the lowest bond insurance premium of just over \$1.5 million. An analysis of the results was performed by the City's financial advisors and confirms that bond insurance remains advantageous for the pricing of the Bonds and will result in overall debt service savings. The recommended bond insurance provider for both the fixed rate and the variable rate bonds is MBIA.

The City will enter into Reimbursement and Indemnity Agreement (the "Reimbursement Agreement") with MBIA. The Reimbursement Agreement is an agreement between the City and MBIA as bond insurer for the Bonds. Under the Reimbursement Agreement, the City agrees to repay MBIA from Airport revenues for amounts advanced on its behalf as payments of principal and interest on the 2004 Bonds under the municipal bond insurance policy. The Reimbursement Agreement sets out the representations and warranties of the City, the conditions under which the City agrees to indemnify MBIA, reimbursement rights of MBIA for advances made to the City and the events of default.

HONORABLE MAYOR AND CITY COUNCIL

May 25, 2004

Subject: Airport Revenue Bonds, Series 2004A, 2004B, 2004C and 2004D - SUPPLEMENTAL

Page 3

Underlying Bond Ratings

The City has obtained underlying ratings for the Airport from the three primary bond rating agencies: Moody's Investors Services, Standard & Poor's and Fitch Ratings. They have each confirmed the Airport's existing underlying rating and rated the Series 2004 Bonds as follows:

- | | | |
|------------------------------|----|----------------|
| • Moody's Investors Services | A2 | Stable Outlook |
| • Standard & Poor's | A | Stable Outlook |
| • Fitch Ratings | A+ | Stable Outlook |

The underlying ratings are beneficial to the financing by reducing the cost of bond insurance and improving the pricing of the Bonds. The Bonds will be issued with ratings of Aaa/AAA/AAA as a result of the bond insurance coverage.

SCOTT P. JOHNSON
Director, Finance Department

Attachments (3)