COUNCIL AGENDA: 10/17/06
ITEM: 9.1

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: Les White
Gerald Silva

SUBJECT **San José Repertory Loan Options**

DATE: October 5, 2006

On September 19, the City Council directed the City Manager and City Auditor to provide responses to a number of questions regarding the REP's cash flow situation and to determine the level of financial assistance that would be required for the REP's sustainability. The attached reports from the City Manager and the City Auditor provide detailed responses to each of the questions. In addition, the City Attorney's report dated September 26, 2006 that was previously distributed to Council responding to questions regarding bankruptcy and business reorganization is included in the packet of information.

After working closely with the REP to obtain the necessary financial information to respond to Council's directives, the Auditor has concluded that $1.4 million of financial assistance is needed for the current fiscal year September 1, 2006 – August 31, 2007 and an additional $200-500,000 will likely be required for next fiscal year (September 1, 2007 – August 31, 2008.).

The loan options presented to Council for consideration on September 19 were for $1 million. Since the analysis concludes that this is insufficient, a new loan option (Option #5) is proposed for consideration by the Council: a $2 million line of credit for 10 years. In years 1-5, the full $2 million would be available and disbursed on a monthly basis. REP would pay interest only during this time period. In years 6-10, the $2 million line of credit would be reduced by $400,000 each year. The REP would make payments on principal and interest. By the end of the 10th year, there would be no funds available in the line of credit. Specific loan conditions are provided as an appendix to the City Manager's report.

The REP has reviewed both reports and supports the new loan option for a ten-year line of credit.

Les White
City Manager

Gerald Silva
City Auditor

Attachments