

**SUPPLEMENTAL***Memorandum*

TO: HONORABLE MAYOR AND
CITY COUNCIL AND CITY
OF SAN JOSE FINANCING
AUTHORITY BOARD

FROM: Julia H. Cooper

SUBJECT: SEE BELOW

DATE: June 18, 2008

Approved

Date

6/18/08

COUNCIL DISTRICT: Citywide

SUBJECT: CITY OF SAN JOSE FINANCING AUTHORITY COMMERCIAL PAPER PROGRAM AND APPROVAL OF ADDITIONAL ITEMS RELATED TO THE CITY OF SAN JOSE FINANCING AUTHORITY LEASE REVENUE BONDS, SERIES 2008ABCDEF (VARIOUS PROJECTS)

SUPPLEMENTAL

REASON FOR SUPPLEMENTAL MEMORANDUM

This supplemental memorandum addresses additional information and recommendations related to the issuance of the City of San José Financing Authority Lease Revenue Bonds, Series ABCDE that requires City Council/Authority Board approval in light of recent negotiations with letter of credit banks and recent market conditions.

RECOMMENDATION

- a. Actions related to the City of San José Financing Authority Lease Revenue Bonds, *Series 2008A (Civic Center Refunding Project)*
 1. Adoption of a resolution of the City Council amending and restating Resolution No. 74400 related to actions in connection with the issuance of the City of San José Financing Authority Lease Revenue Bonds, Series 2008A (Civic Center Refunding Project) (the "Civic Center Bonds") in order to increase the aggregate principal amount authorized from an amount not-to-exceed \$61,000,000 to an amount not to exceed \$70,000,000 and to authorize certain designated officials to take other actions as necessary in connection with the issuance of the Civic Center Refunding Bonds.

2. Adoption of a resolution of the City of San José Financing Authority Board amending and restating Resolution No. 78 related to actions in connection with the issuance of the Civic Center Refunding Bonds in order to increase the aggregate principal amount authorized from an amount not to exceed \$61,000,000 to an amount not to exceed \$70,000,000 and to authorize certain designated officials to take other actions as necessary in connection with the issuance of the Civic Center Refunding Bonds.
- b. Actions related to the City of San José Financing Authority Lease Revenue Bonds, *Series 2000B (Civic Center Garage Refunding Project)*
1. Adoption of a resolution of the City Council amending and restating Resolution No. 74401 related to actions in connection with the issuance of the City of San José Financing Authority Lease Revenue Bonds, Series 2008B (Civic Center Garage Refunding Project) (the “Civic Center Garage Refunding Bonds”) in order to increase the aggregate principal amount authorized from an amount not to exceed \$35,000,000 to an amount not to exceed \$40,000,000 and to authorize certain designated officials to take other actions as necessary in connection with the issuance of the Civic Center Garage Refunding Bonds.
 2. Adoption of a resolution of the City of San José Financing Authority Board amending and restating Resolution No. 79 related to actions in connection with the issuance of the Civic Center Garage Refunding Bonds in order to increase the aggregate principal amount authorized from an amount not to exceed \$35,000,000 to an amount not to exceed \$40,000,000 and to authorize certain designated officials to take other actions as necessary in connection with the issuance of the Civic Center Garage Refunding Bonds.
- c. Actions related to the City of San José Financing Authority Lease Revenue Bonds, *Series 2008C and Series 2008D (Hayes Mansion Refunding Project)*
1. Adoption of a resolution of the City Council amending and restating Resolution No. 74402 related to actions in connection with the issuance of the City of San José Financing Authority Lease Revenue Bonds, Series 2008C (Hayes Mansion Refunding Project) and City of San José Financing Authority Taxable Lease Revenue Bonds, Series 2008D (Hayes Mansion Refunding Project) (the “Hayes Mansion Refunding Bonds”) in order to extend the maturity of the Series 2008D Bonds from June 1, 2024 to June 1, 2025 and to authorize certain designated officials to take other actions as necessary in connection with the issuance of the Hayes Mansion Refunding Bonds.
 2. Adoption of a resolution of the City of San José Financing Authority Board amending and restating Resolution No. 80 related to actions in connection with the issuance of the Hayes Mansion Refunding Bonds in order to extend the maturity of the Series 2008D Bonds from June 1, 2024 to June 1, 2025 and to

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authorize certain designated officials to take other actions as necessary in connection with the issuance of the Hayes Mansion Refunding Bonds.

- d. Actions related to the City of San José Financing Authority Lease Revenue Bonds, *Series 2008E (Ice Centre Refunding Project)*
 1. Adoption of a resolution of the City Council amending and restating Resolution No. 74403 related to actions in connection with the issuance of the City of San José Financing Authority Taxable Lease Revenue Bonds, Series 2008E (Ice Centre Refunding Project) (the "Ice Centre Refunding Bonds") in order to increase the aggregate principal amount authorized from an amount not to exceed \$28,000,000 to an amount not to exceed \$31,000,000 and to authorize certain designated officials to take other actions as necessary in connection with the issuance of the Ice Centre Refunding Bonds.
 2. Adoption of a resolution of the City of San José Financing Authority Board amending and restating Resolution No. 81 related to actions in connection with the issuance of the Ice Centre Refunding Bonds in order to increase the aggregate principal amount authorized from an amount not to exceed \$28,000,000 to an amount not to exceed \$31,000,000 and to authorize certain designated officials to take other actions as necessary in connection with the issuance of the Ice Centre Refunding Bonds.
- e. Delegation of Authority Related to Variable Rate Debt of the City or the City of San José Financing Authority
 1. Adoption of a resolution of the City Council authorizing the City Manager or the City Manager's authorized designee, through August 5, 2008, to take various actions with respect to the outstanding variable rate debt of the City or City of San José Financing Authority without further action of the City Council when the City Manager determines it is prudent to do so.
 2. Adoption of a resolution of the City of San José Financing Authority Board authorizing the Executive Director or the Executive Director's authorized designee, through August 5, 2008, to take various actions with respect to the outstanding variable rate debt of the City of San José Financing Authority without further action of the City of San Jose Financing Authority Board when the Executive Director determines it is prudent to do so.

OUTCOME

Approval of these recommendations will increase the authorization amount for the City of San José Financing Authority Lease Revenue Bonds, Series 2008A (Civic Center Refunding), Series 2008B (Civic Center Garage Refunding), and Series 2008E (Ice Centre Refunding) bonds,

authorize the extension of the final maturity for the Series 2008D (Hayes Mansion Refunding) Bonds, and continue to facilitate the City's ability to respond to financial proposals related to its variable rate bond portfolio during the current period of disruption in the financial markets.

BACKGROUND

On June 3, 2008, the City Council/Authority Board approved the sale and issuance of bonds and related bond documents for the City of San José Financing Authority, Series 2008ABCDEF (the "Refunding Bonds"). The purpose of the Refunding Bonds is to refinance the City's existing series of variable rate lease revenue bonds and fund related financing costs.

On February 15, 2008, the City Council and the Authority Board delegated authority to the Executive Director and/or City Manager or their authorized designees to take various actions with respect to the variable rate debt of the City and the Authority through March 10, 2008. On March 11, 2008, the City Council approved an extension of this delegation to June 23, 2008 to allow staff to react to additional proposals related to the City and Authority's outstanding debt as prudent and to enter into agreements to reduce the financial exposure of the City and the Authority.

The City of San Jose Financing Authority, Series 2008F (Land Acquisition Refunding) Bonds for the land acquisition refunding project were successfully sold and the bond issue closed on June 11, 2008. The Series 2008F Bonds refunded the Authority's outstanding Series 2005AB Bonds.

ANALYSIS

Not to Exceed Authorization. The Refunding Bonds were sized assuming a debt service reserve fund requirement based an interest rate of 3.50 percent for the tax-exempt series of bonds and 5.00 percent for the taxable series of bonds. These estimates were conservatively based on the ten-year average index rate for tax-exempt and taxable bonds, a reasonable method of sizing a debt service reserve fund which was consistent with the City's prior practices. Further negotiation with California State Teachers' Retirement System ("CalSTRs") and the Bank of Nova Scotia for the Series 2008A (Civic Center Refunding) Bonds and CalSTRs and Bank of America for the Series 2008B (Civic Center Garage Refunding) Bonds and Series 2008E (Ice Centre Refunding) Bonds may result in the debt service reserve fund requirement to be sized at the maximum interest rate on the Refunding Bonds of 12.00 percent. The proposed increase to the not to exceed authorization will give staff the ability to continue negotiations with the Banks on the Series 2008A, Series 2008B, and Series 2008E bonds. However, it is likely that in light of the tightened credit market, the reserve funds for the Series 2008A, Series 2008B, and Series 2008E will likely need to be increased from the estimated sizing which in turn will require the aggregate principal amounts of these issues to be increased to an amount not to exceed: \$70 million for Series 2008A, \$40 million for Series 2008B, and \$31 million for Series 2008E.

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Series 2008D Maturity. In the original memorandum related to the issuance of the Series 2008ABCEF Bonds, staff recommended that the final maturity for the Series 2008D Bonds be June 1, 2024. In the course of running final numbers for this transaction, an error was discovered and the final maturity date is June 1, 2025.

Substitution of Underwriter. The volatility in the current financial market has created uncertainty in the stability of major financial institutions as reported in recent news articles. In order to preserve the ability to issue the Refunding Bonds within the proposed schedule and to respond promptly to changing market conditions, staff recommends that the City Manager and the City Manager's authorized designees on behalf of the City and the Executive Director and the Executive Director's authorized designees on behalf of the Authority (collectively, the "Designated Officers"), without further action of the City Council/Authority Board, each be authorized to replace the underwriter currently designated for the Series 2008ABCDE Bonds and to enter into bond purchase agreements under the same terms as was previously recommended for the particular series of bonds, if the Designated Officers deem it is in the best interest of the City/Authority to do so.

Delegation of Authority. Staff is requesting a further extension of the delegation of authority to August 5, 2008 to respond to any actions that may be required to reduce the financial exposure of the City and the Authority. In this regard, the Executive Director/City Manager or authorized designees will continue to be authorized to take actions related to the various documents governing the City's and the Authority's outstanding variable rate debt. Actions will be taken by authorized officials when it determined prudent to take actions without obtaining the approval of the City Council or Authority Board. These proposals will be evaluated in the context of minimizing the financial risks and budgetary exposure to the City.

Compressed Timeline for Staff Reports. The approval to agendaize items outside of the normal Council process was granted on March 11, 2008, and it is anticipated that this need will continue through the requested extension period of the delegation of authority.

EVALUATION AND FOLLOW-UP

Staff will report back to the City Council with a summary of any actions taken under this delegation of authority.

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PUBLIC OUTREACH/INTEREST

- Criteria 1:** Requires Council action on the use of public funds equal to \$1 million or greater. **(Required: Website Posting)**
- Criteria 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**
- Criteria 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

COORDINATION

This staff report has been prepared by the Finance Department in coordination with the City Attorney's Office.

FISCAL/POLICY ALIGNMENT

The recommendations in this memo are consistent with the City's Debt Management Policy which establishes the following equally important objectives in order to obtain cost-effective access to the capital markets:

- Minimize debt service and issuance costs;
- Maintain access to cost-effective borrowing;
- Achieve the highest practical credit rating;
- Full and timely repayment of debt;
- Maintain full and complete financial disclosure and reporting; and
- Ensure compliance with applicable State and Federal laws.

COST SUMMARY/IMPLICATIONS

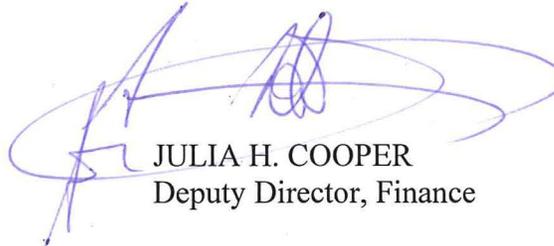
Costs associated with the increased authorization will be paid from bond proceeds. To the extent that there is any subsequent budget implication on the debt service funds that pay these bonds, staff will report back to Council with the impact and appropriation actions if necessary.

BUDGET REFERENCE

N/A

CEQA

Not a project.



JULIA H. COOPER
Deputy Director, Finance

For questions, please contact Julia H. Cooper, Deputy Director, at (408) 535-7011.