



# Memorandum

**TO:** HONORABLE MAYOR AND  
CITY COUNCIL

**FROM:** Julia H. Cooper

**SUBJECT:** SEE BELOW

**DATE:** June 1, 2012

Approved

Date

6/1/12

**SUBJECT: MERGED AREA REDEVELOPMENT PROJECT REVENUE BONDS,  
SERIES 1996 A & B AND SERIES 2003 A & B – JPMORGAN LETTERS  
OF CREDIT EXTENSION**

## REASON FOR ADDENDUM

Given uncertainty surrounding the amount of tax increment to be distributed to the Successor Agency in June 2012, JPMorgan Chase Bank, NA verbally informed the City on May 30 of the need to obtain additional information in order to proceed with a one year extension to the existing letter of credits (“LOC”). At this time, they are proposing a shortened extension to the LOCs in order to provide additional time to negotiate additional provisions to the Reimbursement Agreement. The LOCs must be provided to the fiscal agent no later than June 6 in order to prevent tender notices being mailed to bondholders.

## RECOMMENDATION

(a) City Council and/or Successor Agency Board by motion, makes a good faith, reasonable determination by a 2/3 vote of the body that an issue has arisen that must be resolved in less than 4 days. (8 votes required)

(b) Adoption of a resolution by the City Council, acting as the Successor Agency to the Redevelopment Agency of the City of San José, authorizing the Executive Officer to negotiate and execute the Fifth Amendment to the Reimbursement Agreements with JP Morgan Chase, Bank NA (“JPMorgan”) with a term for less than one year, with all other terms and conditions previously approved by on May 22, 2012 to remain unchanged.

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## **OUTCOME**

Approval of these recommendations will result in an extension of the letters of credit providing credit and liquidity support for the 1996 Bonds and 2003 Bonds for a period less than one year to allow additional time for JPMorgan to evaluate the potential impact on their security interest in tax allocation revenue.

## **BACKGROUND**

On May 22, 2012, the City Council acting as the board of the Successor Agency to the Redevelopment Agency of the City of San José took several actions related to the execution and delivery of the Fifth Amendment to the Reimbursement Agreements and a Letter Agreement regarding fees and charges. The memorandum prepared for the City Council provided a detailed history of the city's long-term relationship with JPM. This memorandum can be found on the City's website at: [http://www.sanjoseca.gov/clerk/agenda/20120522/20120522\\_0901.pdf](http://www.sanjoseca.gov/clerk/agenda/20120522/20120522_0901.pdf). The Oversight Board also approved the actions related to an extension of the letter of credit. The memorandum can be found on the City's website at: [http://www.sanjoseca.gov/Clerk/Agenda/successor/20120524/sara20120524\\_0603.pdf](http://www.sanjoseca.gov/Clerk/Agenda/successor/20120524/sara20120524_0603.pdf)

## **ANALYSIS**

As a result of the uncertainty surrounding the amount of tax increment to be distributed to the Successor Agency in June 2012, JPMorgan verbally informed the City of the need to obtain additional information in order to proceed with a one year extension to the existing letter of credits. At this time, JPMorgan is proposing a shortened extension period to the LOCs in order to provide more time to negotiate additional provisions to the Reimbursement Agreement. Staff continues to negotiate the period of extension with JPMorgan to ensure sufficient time for revisions and Council consideration. In the event the negotiated extension term is less than 60 days staff is requesting that the Executive Officer be authorized to enter into additional extensions during the City Council recess.

An extension to the LOCs must be provided to the fiscal agent no later than June 6, 2012, in order to prevent tender notices being mailed to bondholders, which begins the process of a mandatory redemption of all \$94,000,000 of outstanding subordinated tax allocation bonds.

The next Oversight Board meeting is scheduled for June 14, 2012, and the short time period between the verbal notification from JPMorgan regarding the change in the term of the LOCs and the date the fiscal agent is required to mail tender notices to bondholders, it was not possible to schedule a meeting of the Oversight Board. The action taken by the City Council and the final negotiated and executed amendment to the Reimbursement Agreement will be presented to the Oversight Board at their June 14, 2012, meeting.

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### EVALUATION AND FOLLOW-UP

This memorandum presents a change in the term of the LOCs previously approved by the Successor Agency Board. Staff will be returning to the Successor Agency Board in August 2012, with the recommendations related to further amendments to the Reimbursement Agreement to secure longer term LOCs.

### 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)**

This report will be posted on the City's website for the June 5, 2012 City Council meeting.

### COORDINATION

This report was prepared by the Finance Department in coordination with SARA and the City Attorney's Office.

### COST SUMMARY/IMPLICATIONS

As noted in the report presented at the May 22, 2012 Council meeting, compensation for professional services (bond counsel, financial advisor and bank counsel) and other related costs will be paid from the FY 2012-13 appropriations for debt service and associated costs. These costs are estimated to be approximately \$25,000 for all these services. Any necessary budget adjustments resulting from the LOC extension will be brought back to Council at a future date. The estimated fees paid to JPMorgan for a sixty day term on the letters of credit is approximately \$360,000

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**CEQA**

Not a Project, File No. PP10-066, Agreements/Contracts (New or Amended).

/s/

JULIA H. COOPER

Acting Director of Finance

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

