



Memorandum

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

FROM: Julia H. Cooper

SUBJECT: SEE BELOW

DATE: November 5, 2012

Approved

Date

11/13/12

**SUBJECT: ACTIONS RELATED TO THE CITY OF SAN JOSE FINANCING
AUTHORITY'S COMMERCIAL PAPER PROGRAM**

RECOMMENDATION

It is recommended that the City Council adopt a resolution to:

- a. Authorize the negotiation, execution, and delivery of an Amended and Restated Letter of Credit and Reimbursement Agreement for the City of San José Financing Authority's Lease Revenue Commercial Paper Notes Program for an alternate credit facility and to authorize other related actions.

It is recommended that the City of San José Financing Authority Board adopt a resolution to:

- a. Authorize the negotiation, execution, and delivery of an Amended and Restated Letter of Credit and Reimbursement Agreement for the City of San José Financing Authority's Lease Revenue Commercial Paper Notes Program for an alternate credit facility and to authorize other related actions.

OUTCOME

Approval of these recommendations will result in the execution and delivery of an Amended and Restated Letter of Credit and Reimbursement Agreement that provides for an alternate credit facility to extend credit support of the City of San José Financing Authority's Lease Revenue Commercial Paper Notes Program to March 15, 2013.

BACKGROUND

Commercial Paper Program

The Commercial Paper ("CP") Program utilizes a lease revenue financing structure. Under this program, the City of San José Financing Authority (the "Authority") is able to issue commercial paper notes ("CP Notes") at prevailing interest rates for periods of maturity not to exceed 270 days. Although the maturity of a CP Note may not exceed 270 days, the Authority may issue additional CP Notes to pay off the maturing notes instead of repaying the principal and interest owed on the maturing CP Notes.

The CP Notes are currently secured by a pledge of lease revenues from various City assets. The City has leased to the Authority various City-owned facilities pursuant to a Site Lease (as amended, the "Site Lease"). The Authority subleased these same facilities back to the City pursuant to a Sublease (as amended, the "Sublease") in exchange for the rental payments which support repayment of the CP Notes. The facilities subject to the Site Lease and Sublease are the Tech Museum, the Animal Care Center, Fire Station No. 1, and the South San José Police Substation.

The Authority issues the CP Notes under the applicable provisions of California law pursuant to an Amended and Restated Trust Agreement between the Authority and Wells Fargo Bank, National Association (as amended and supplemented, the "Trust Agreement") and an Amended and Restated Issuing and Paying Agent Agreement between the Authority and Wells Fargo Bank, National Association. Barclays Capital, Inc. serves as the dealer for the CP Notes pursuant to an Amended and Restated Commercial Paper Dealer Agreement.

The CP Program was initially established in January 2004 and has been amended and expanded through various City Council and Authority Board actions over time. A summary of these program amendments is provided in Attachment A.

Current Letter of Credit – Expiration

The CP Notes are currently secured by a direct-pay letter of credit ("LOC") provided by State Street Bank and Trust Company ("State Street") and the California State Teachers' Retirement System ("CalSTRS" and, together with State Street, the "Current Banks") pursuant to the Letter of Credit and Reimbursement Agreement by and among the Current Banks, State Street as agent for the Current Banks, the City and the Authority (as amended, the "Letter of Credit Agreement"). Per the terms of the Letter of Credit Agreement, the Current Banks are separately, not jointly, responsible for payments on all draws made on the LOC, with State Street obligated for 75% and CalSTRS obligated for 25% of all payments. The current LOC expires on January 27, 2013.

ANALYSIS

CalSTRS notified the Finance Department that it would not continue to provide credit support to the CP Program beyond the expiration of the current Letter of Credit Agreement. In response, in September 2012, the Finance Department released a Request for Proposals to banks requesting direct-pay letters of credit or alternative credit products to extend support for the CP Program beyond the expiration date. State Street and U.S. Bank (the "Proposed Banks") responded as joint providers, with each providing 50% of credit support to the CP Program. However, the Proposed Banks recommended an effective date of February 14, 2013 under the condition of full repayment of the City's outstanding \$100 million of 2012 Tax and Revenue Anticipation Notes ("2012 TRAN") with U.S. Bank prior to the closing.

To facilitate the extension of the LOC until after the repayment of the 2012 TRAN on February 14, 2013, State Street has agreed to provide a letter of credit, without CalSTRS, to support the CP Program from the January 27, 2013 termination date of its current LOC commitment to March 15, 2013 under the same terms in the current Letter of Credit Agreement. This extension will allow the City to negotiate new Letter of Credit and Reimbursement Agreements with State Street and U.S. Bank to provide credit facilities with a term of 2.5 years to support the CP Program.

State Street's LOC commitment is sufficient to support the CP Notes currently outstanding on a stand-alone basis. The following table summarizes the proposed short-term extension of the LOC to March 15, 2013:

Banks	Current LOC Expiring January 27, 2013	Proposed LOC Expiring March 15, 2013
State Street	\$93,435,750	\$93,435,750
CalSTRS	<u>31,145,250</u>	<u>0</u>
Total Commitment	\$124,581,000	\$93,435,750
Less: Interest Coverage	<u>8,581,000</u>	<u>6,435,750</u>
CP Issuance Capacity	<u>\$116,000,000</u>	<u>\$87,000,000</u>
CP Outstanding as of 11/1/12	\$45,348,000	

The form of the Amended and Restated Letter of Credit and Reimbursement Agreement with State Street and the authorizing resolutions of the City Council and the Authority will be posted to the agenda webpage for the joint meeting of the City and the Authority on or about November 15, 2012. Staff recommends that the Executive Director or Treasurer of the Authority or their designees (the "Authority Designated Officers") be authorized to execute these amendments as posted, on behalf of the Authority and that the City Manager or the Acting Director of Finance or their designees (the "City Designated Officers") be authorized to execute this agreement, as posted, on behalf of the City, as applicable, with such modifications as the Authority Designated

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Subject: **Actions related to the CP Program**

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Officers or the City Designated Officer determines to be desirable or appropriate, upon consultation with the City Attorney.

Financing Team Participants

The financing team participants consist of:

City's Financial Advisor:	Public Resources Advisory Group
Bond Counsel:	Jones Hall, A Professional Law Corporation
Letter of Credit Bank:	State Street Bank and Trust Company
Bank Counsel:	Nixon Peabody
Trustee/Issuing and Paying Agent:	Wells Fargo Bank
CP Dealer:	Barclays Capital Inc.

Financing Schedule

The current proposed schedule is as follows:

Council approval of amendments to financing documents:	November 27, 2012
Document closing:	January 14, 2013

EVALUATION AND FOLLOW-UP

Staff will be coming back to City Council and the Authority Board in the first quarter of 2013 with recommendations for letters of credit that will provide credit support of the CP Program with State Street and U.S. Bank following the repayment of the 2012 TRAN on February 14, 2013.

PUBLIC OUTREACH/INTEREST

The form of the proposed amendment will be posted to the agenda webpage for the joint meeting of the City and the Authority on or about November 15, 2012.

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

COST SUMMARY/IMPLICATION¹

Compensation for professional services (bond counsel and bank counsel) and other related costs will be paid from the 2012-13 appropriations, shown below, for debt service and associated costs. Additionally, a component related to the former Redevelopment Agency will be paid for according to the Recognized Obligation Payment Schedule.

Appropriation	Fund
7005 - Interest on Phase II Commercial Paper	Construction Tax and Property Conveyance Tax Fund: Service Yards Purpose
3414 – IBS Commercial Paper Payment	Integrated Waste Management Fund
3414 – IBS Commercial Paper Payment	Water Utility Fund
3624 – HP Improvements – Debt Service	San Jose Arena Enhancement Fund
3792 – Commercial Paper Debt Service	Convention and Cultural Affairs Fund

The City's financial advisor work is on a time and materials basis and is paid through an existing agreement managed by the Finance Department. Any necessary budget adjustments due to the

¹ Updated from Early Distribution Council Packet for November 27, 2012 Council Meeting.

final outcome of negotiations with the Current Banks and Proposed Banks or the LOC extension process will be brought forward at the City Council meeting with the other actions related to the LOC extensions.

CEQA

Not a project, PP10-069, City organizational and administrative activities.

/s/
JULIA H. COOPER
Acting Director of Finance

For questions, please contact Maria Öberg, Acting Treasury Division Manager, Finance, at (408) 535-7041.

Attachment A

Date	City Council/City of San José Financing Authority Board Actions
January 13, 2004	Authorized the issuance of tax-exempt CP Notes in an amount not to exceed \$98 million to finance public improvements of the City including the offsite parking garage for the new City Hall and non-construction costs for technology, furniture, equipment, and relocation services for the new City Hall.
November 9, 2004	Authorized the issuance of tax-exempt CP Notes to provide additional funding for the "Integrated Utility Billing, Customer Service and Performance Management System" (the "CUSP Project").
June 21, 2005	Authorized the issuance of taxable CP Notes, under the same \$98 million not to exceed limitation as the tax-exempt notes. This subsequent authorization permits the Authority to issue taxable CP Notes to pay for expenses otherwise authorized under the CP Program, but ineligible to be paid from tax-exempt CP proceeds.
November 15, 2005	Authorized expanding the capacity of the CP Program from \$98 million to \$116 million and authorizing the issuance of CP Notes to pay a portion of the costs of the Phase II improvements at the City's Central Service Yard and a portion of the demolition and clean-up costs at the City's Main Service Yard.
May 22, 2007	Authorized the issuance of CP Notes in an amount not to exceed \$8.25 million to pay for capital improvements at the City's HP Pavilion.
October 21, 2008	Authorized the issuance of CP Notes to refund bonds and other obligations of the City or the Authority pursuant to Government Code Sections 53570 et seq and 53580 et seq.
December 8, 2009	Authorized staff to amend and renew the Letter of Credit and Reimbursement Agreement supporting the CP Notes in order to extend the term to January 27, 2013.
April 27, 2010	Authorized the issuance of CP Notes to fund a loan to the low and moderate income housing fund and to fund short-term cash flow needs of the City.
March 15, 2011	Authorized the execution and delivery of a Third Amendment to the Site Lease, a Third Amendment to the Sublease, and other related actions pertaining to the Authority's Lease Revenue Commercial Paper Program in order to provide for the substitution of certain components of the property under the Site Lease and the Sublease. The facilities currently subject to the Site Lease and Sublease are: the Tech Museum, the Animal Care Center, Fire Station No. 1, and the South San José Police Substation.
June 19, 2012	Authorized the issuance of CP Notes in an amount not to exceed \$10.0 million to provide funding for additional projects for the Convention Center Expansion and Renovation Project.