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FINANCE AND BUDGET COMMITTEE
MARCH 19, 2008

SUBJECT: PROP A BONDS

ACTION: AWARD CONTRACTS FOR LINES OF CREDIT

RECOMMENDATION

A. Award a three-year contract to Bank of America N.A. to provide a $150 million line of credit for an amount not to exceed $1,700,000, including legal fees and other related expenses.

B. Award a three-year contract to Dexia Credit Local to provide a $150 million line of credit for an amount not to exceed $1,600,000, including legal fees and other related expenses.

RATIONALE

The lines of credit are required in order to convert our Prop A 2005-C Auction Rate Securities (ARS) to other modes, such as variable rate demand bonds (VRDBs) or term rate bonds, that we believe will be more attractive to investors. Properly structured VRDBs are currently paying rates around 2% while our Prop A 2005-C auction rate bonds are costing us 7% to 8%. The request for authorization to execute the conversion will be submitted in the April 2008 board cycle.

DISCUSSION

Since summer 2007 the financial marketplace has become increasingly more unstable as a result of the "subprime" meltdown. Bond insurers with traditional "AAA" credit ratings were downgraded in January and February 2008 and others have been placed on "negative credit watch". These downgrades and the credit squeeze affecting the major investment banks have resulted in ARS trading at multiples of their prior levels, our prior 2-3% resets are now 6-8%.

We have $265 million of Prop A 2005-C bonds outstanding. XL Capital is the insurer of these bonds. XL was rated "AAA" as recently as December 2007 but was downgraded to "A-", the largest downgrade in the industry to date. The insurer downgrade has had a negative impact on the interest rates that we pay. These are our only bonds insured by XL. As part of the restructuring, we will need to drop XL.

We have an additional $291 million in General Revenue and $381 million of Prop C ARS. We are also working to similarly restructure these bonds by seeking additional liquidity banks and will return to the Board when we can lock those in.

In February the Board authorized the execution of an interest rate swap to refund the Prop C 1998 bonds. In January we had issued a Request for Proposal for credit support for that transaction. Although the bids that we received were for Prop C, we are able to shift those bids to Prop A because it is a higher rated credit. Five bids were received. Two banks retracted their offers and two others increased pricing. The recommended banks were the lowest prices proposed. $150 million of credit is the maximum amount any one bank proposed.

FINANCIAL IMPACT

Funding of $750,000 has been included in the FY08 budget for expenses related to debt and refinancing activities. These expenses are funded with the sales tax that is impacted by the debt activity (Prop A or Prop C). If additional funds are required in FY08 as a result of this action, they will be absorbed in the approved FY08 budget.

ALTERNATIVES CONSIDERED

We could defer award to the banks until next month. However, the banks are currently overwhelmed with requests to provide liquidity for other issuers pursuing similar ARS conversions that require liquidity. Any delay in locking the banks into their commitment could result in either higher costs or outright retraction of the offer from the banks. So far, two banks retracted their offers and two others increased pricing.

NEXT STEPS

- Negotiate the liquidity agreements
- Return for authorization to execute the conversion

ATTACHMENT

1. Summary of Responses from Proposers

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Chief Financial Services Officer and Treasurer

Roger Snoble
Chief Executive Officer

Attachment A

Summary of Responses from Proposer

Bank	*3-Year Total for Standby Facility*
Bank of America	$1,700,000
Bayern LB	Bid Withdrawn
Dexia Credit Local	$1,600,000
Lloyds TSB	Bid Withdrawn
Scotia Capital	Won't Provide SBPA

Note - The three year total is for a standby liquidity facility know as a "standby bond purchase agreement", including $100,000 for legal fees and other expenses, but excluding any additional charges that would be incurred if there were a draw on the facility or other unplanned activity.