

09/19/14

SB2

AGENDA REPORT

Date: September 17, 2014
To: Oversight Board
From: John V. Guthrie, Oversight Board Member
Subject: Response to City Manager's Memo of September 16, 2014 Re: Unspent Bond Proceeds – Financial Impact

General:

The subject memo suggested among other things that a full detailed economic analysis would need to be prepared by a financial advisor and that the City did not have adequate time to prepare such an analysis. It took me a little over three hours to complete the attached spreadsheet which shows the economic benefits of setting up a \$25 million escrow fund and retiring the 2011 Bonds when they are callable in 2021. The bottom line is that the Successor Agency would save in the range of \$37.7 million or 66% of the full debt service over an alternative of permitting the City use of those proceeds and paying the debt off at full term maturity. This would directly benefit the taxing entities that we represent.

Discussion:

The major point of the recommendation was to mitigate potential risk posed by continuing to hold the debt proceeds. I believe that the expedient disposition of remaining debt proceeds, recently returned by the City to the Successor Agency, would show good faith to all concerned in the matter. This issue is not addressed in the City Manager's reply. Instead, the City Manager brings up the issue of financial impact as a reason to delay this issue. This issue cannot be delayed because we must include these payments on the ROPS which we must approve this month.

Since the City brings up financial impact, however, this issue fully favors my proposal in that it saves an estimated \$37.7 million for local taxing entities and could actually protect bondholders.

Virtually all of the data in the attached analysis comes directly from data in the 2011 official statements. This includes principal and interest payments on both capital appreciation bonds (CABs) and the serial bonds issued in 2011. The only data in the spreadsheet not from the official statements includes current remaining principal of \$25,000,560 on the 2011 Bonds, and reasonable interest rate assumptions on earnings through 2021 in the proposed escrow fund and debt service reserve fund. The interest rate of 2.2% on the escrow fund would involve directing the trustee to buy US Treasuries, which would retire around June 2021. Since this is an escrow fund this would be

POST MEETING MATERIAL

permitted since there is no need for liquidity before the call date. As of today, a 7 year treasury yields 2.3%.

Conclusion:

The attached spreadsheet represents a reasonable estimate of savings. It doesn't take a lengthy financial analysis to state what we already know: that if a \$25 million escrow fund is established to defease bonds then at a minimum the RPPTF fund will save at least \$25 million in paying off future bond debt. Add to this the interest earnings on both the escrow fund and debt service reserve fund, and saved interest on early redemption of the bonds themselves, and the number easily accumulates to the \$37.7 million range. Stated simply, this analysis shows that paying down debt saves money.

The financial analysis clearly favors my proposal, and I will be prepared to answer any questions on the attached analysis.

**City of Santa Clara
2011 Debt Service Schedule**

Period Ending	Principal	Serial Interest	Compounded Interest (CAB)	Total Debt Service	Remaining Outstanding Principal		
					Serial	CABs	Total
1 12/1/11	0	350,141		350,141	11,440,000	19,971,295	31,411,295
2 6/1/12	125,000	326,556		451,556	11,315,000	19,971,295	31,286,295
3 12/1/12		325,306		325,306	11,315,000	19,971,295	31,286,295
4 6/1/13		325,306		325,306	11,315,000	19,971,295	31,286,295
5 12/1/13		325,306		325,306	11,315,000	19,971,295	31,286,295
6 6/1/14	1,022,311	325,306	142,689	1,490,306	10,292,689	18,948,984	29,241,673
	<u>1,147,311</u>	<u>1,977,922</u>	<u>142,689</u>	<u>3,267,922</u>	<u>10,292,689</u>	<u>18,948,984</u>	<u>29,241,673</u>

Escrow fund if principal isn't spent	Debt Service Reserve	
	Net Bond proceeds	Balance
30,465,037	25,000,000	2,767,806
	0	2,767,806
	0	2,767,806
	0	2,767,806
	0	2,767,806
	0	2,767,806
	560	2,767,806
	<u>25,000,560</u>	<u>0</u>

Note: These costs are expired regardless which option is pursued.

Future incremental debt service:

Period	Principal	Serial Interest	Compounded Interest (CAB)	Total Debt Service	Serial	CABs	Total
7 12/1/14	0	325,306		325,306	10,292,689	18,948,984	29,241,673
8 6/1/15	1,199,716	325,306	250,285	1,775,306	10,292,689	17,749,269	28,041,958
9 12/1/15	0	325,306		325,306	10,292,689	17,749,269	28,041,958
10 6/1/16	1,109,651	325,306	320,349	1,755,306	10,292,689	16,639,617	26,932,307
11 12/1/16	0	325,306		325,306	10,292,689	16,639,617	26,932,307
12 6/1/17	1,646,845	325,306	638,155	2,610,306	10,292,689	14,992,772	25,285,461
13 12/1/17		325,306		325,306	10,292,689	14,992,772	25,285,461
14 6/1/18	1,401,067	325,306	703,933	2,430,306	10,292,689	13,591,705	23,884,394
15 12/1/18		325,306		325,306	10,292,689	13,591,705	23,884,394
16 6/1/19	1,178,504	325,306	746,496	2,250,306	10,292,689	12,413,201	22,705,890
17 12/1/19		325,306		325,306	10,292,689	12,413,201	22,705,890
18 6/1/20	978,962	325,306	766,038	2,070,306	10,292,689	11,434,238	21,726,928
19 12/1/20		325,306		325,306	10,292,689	11,434,238	21,726,928
20 6/1/21	790,975	325,306	749,025	1,865,306	10,292,689	10,643,264	20,935,953
paid to date 6/21	8,305,721	4,554,288	4,174,279	17,034,288	10,292,689	10,643,264	20,935,953

Interest @	Interest @
2.2%	1%
275,006	25,275,566
278,031	25,553,597
281,090	25,834,687
284,182	26,118,869
287,308	26,406,176
290,468	26,696,644
293,663	26,990,307
296,893	27,287,200
300,159	27,587,360
303,461	27,890,821
306,799	28,197,620
310,174	28,507,793
313,586	28,821,379
317,035	<u>29,138,414</u>

Remaining payoff 6/21:							
Remaining principal				20,935,953			
CAB Interest @6/21				13,708,985			

Option 1 Call O/s Bonds using preserved escrow principal

Total Incremental Payout (paid debt service plus rem. payoff)	51,679,225
Less Escrow fund principal and debt service reserve @6/1/21	(32,304,186)
Net incremental payout	19,375,039

34%

Option 2 Spend principal pay bonds at maturity

Period	Principal	Serial Interest	Compounded Interest (CAB)	Total Debt Service
21 12/1/21		325,306		325,306
22 6/1/22	614,848	325,306	720,152	1,660,306
23 12/1/22		325,306		325,306
24 6/1/23	471,893	325,306	653,108	1,450,306
25 12/1/23		325,306		325,306
26 6/1/24	4,855,946	325,306	7,904,054	13,085,306
27 12/1/24		325,306		325,306
28 6/1/25	4,306,848	325,306	8,198,153	12,830,307
29 12/1/25		325,306		325,306
30 6/1/26	11,708,731	325,306	861,269	12,895,306

CAB Inter at 6/1/21	Balance
654,684	31,658
	3,197,429
	31,974
	3,229,404
	32,294
	3,261,698
544,256	32,617
	3,294,315
	32,943
	3,327,258
6,080,042	33,273
	3,360,530
	33,605
	3,394,136
5,855,824	33,941
	3,428,077
	34,281
	3,462,358
574,179	34,624
	3,496,981
<u>13,708,985</u>	

Sub total	21,958,264	2,927,756	18,336,736	43,548,063
Total Incremental Debt Serv/to full bond maturity				60,582,350
Less Debt service reserve @6/1/26				(3,496,981)
Net Incremental debt payout				57,085,369

100%

Savings from defeasance	37,710,330
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66%