

California Debt and Investments Advisory Commission
Living with an Issue: Ongoing Bond Administration

Managing Ongoing Responsibilities for Variable-Rate Financings and Interest Rate Swaps

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Ongoing Responsibilities

- Review performance of variable-rate instruments
- Pay debt service and related financing fees
- Meet compliance obligations
- Monitor status of credit and liquidity facilities
- Prepare budget projections and updates

Review Performance of Variable-Rate Instruments

- Track periodic resets for each series
- Compare performance to similar credits or indices
 - SIFMA (BMA) Muni Swap Index – Tax Exempt VRDBs
 - archives1.sifma.org/story.asp?id=324
 - SIFMA ARS Indices – Tax Exempt ARS
 - www.sifma.org/capital_markets/arsindex.shtml
 - 30-Day LIBOR – Taxable
 - www.bba.org.uk/bba/jsp/polopoly.jsp?d=141&a=627
- Talk to the remarketing agent or auction agent desk to question any perceived under-performance

Compare Remarketing Performance to Similar Credits or Indices

Tax-Exempt Variable-Rate Performance

Date	SIFMA	CWFA 2005B	CSJFA 2001D	CSJFA 2002C	RDA 1996A	RDA 1996B	RDA 2003B
7/4/07	3.60%	3.51%	3.57%	3.55%	3.51%	3.48%	3.53%
7/11/07	3.58%	3.47%	3.55%	3.53%	3.47%	3.44%	3.51%
7/18/07	3.61%	3.50%	3.57%	3.55%	3.50%	3.44%	3.55%
7/25/07	3.61%	3.50%	3.56%	3.56%	3.50%	3.45%	3.55%
8/1/07	3.52%	3.42%	3.45%	3.50%	3.42%	3.35%	3.43%
8/8/07	3.51%	3.39%	3.45%	3.47%	3.39%	3.35%	3.43%
8/15/07	3.69%	3.56%	3.65%	3.60%	3.56%	3.48%	3.60%
8/22/07	3.89%	3.91%	3.81%	3.75%	3.91%	3.68%	3.75%
8/29/07	3.95%	3.82%	3.91%	3.80%	3.82%	3.77%	3.87%
9/5/07	3.85%	3.72%	3.82%	3.73%	3.72%	3.70%	3.80%
9/12/07	3.73%	3.62%	3.69%	3.56%	3.62%	3.57%	3.65%
9/19/07	3.77%	3.69%	3.73%	3.62%	3.69%	3.65%	3.75%
9/26/07	3.84%	3.72%	3.80%	3.65%	3.72%	3.60%	3.75%
10/3/07	3.56%	3.41%	3.54%	3.40%	3.41%	3.43%	3.52%
10/10/07	3.55%	3.39%	3.50%	3.37%	3.39%	3.40%	3.50%
10/17/07	3.49%	3.33%	3.45%	3.30%	3.33%	3.30%	3.40%
10/24/07	3.43%	3.30%	3.40%	3.29%	3.30%	3.25%	3.32%
10/31/07	3.26%	3.12%	3.20%	3.10%	3.12%	3.10%	3.20%
11/7/07	3.41%	3.31%	3.50%	3.27%	3.31%	3.20%	3.35%
11/14/07	3.54%	3.39%	3.58%	3.33%	3.39%	3.30%	3.45%
11/21/07	3.58%	3.42%	3.69%	3.40%	3.42%	3.33%	3.48%
11/28/07	3.58%	3.43%	3.69%	3.40%	3.43%	3.33%	3.48%
12/5/07	3.40%	3.26%	3.50%	3.15%	3.26%	3.22%	3.35%
12/12/07	3.09%	2.93%	3.18%	2.77%	2.93%	2.93%	3.00%
12/19/07	3.16%	3.03%	3.22%	2.95%	3.03%	2.90%	3.00%
12/26/07	3.42%	3.31%	3.45%	3.25%	3.31%	2.90%	3.35%
Average	3.56%	3.44%	3.56%	3.42%	3.44%	3.37%	3.48%

Tax-Exempt Variable Rate Comparison to SIFMA Index

CWFA 2005B	CSJFA 2001D	CSJFA 2002C	RDA 1996A	RDA 1996B	RDA 2003B
-0.09%	-0.03%	-0.05%	-0.09%	-0.12%	-0.07%
-0.11%	-0.03%	-0.05%	-0.11%	-0.14%	-0.07%
-0.11%	-0.04%	-0.06%	-0.11%	-0.17%	-0.06%
-0.11%	-0.05%	-0.05%	-0.11%	-0.16%	-0.06%
-0.10%	-0.07%	-0.02%	-0.10%	-0.17%	-0.09%
-0.12%	-0.06%	-0.04%	-0.12%	-0.16%	-0.08%
-0.13%	-0.04%	-0.09%	-0.13%	-0.21%	-0.09%
0.02%	-0.08%	-0.14%	0.02%	-0.21%	-0.14%
-0.13%	-0.04%	-0.15%	-0.13%	-0.18%	-0.08%
-0.13%	-0.03%	-0.12%	-0.13%	-0.15%	-0.05%
-0.11%	-0.04%	-0.17%	-0.11%	-0.16%	-0.08%
-0.08%	-0.04%	-0.15%	-0.08%	-0.12%	-0.02%
-0.12%	-0.04%	-0.19%	-0.12%	-0.24%	-0.09%
-0.15%	-0.02%	-0.16%	-0.15%	-0.13%	-0.04%
-0.16%	-0.05%	-0.18%	-0.16%	-0.15%	-0.05%
-0.16%	-0.04%	-0.19%	-0.16%	-0.19%	-0.09%
-0.13%	-0.03%	-0.14%	-0.13%	-0.18%	-0.11%
-0.14%	-0.06%	-0.16%	-0.14%	-0.16%	-0.06%
-0.10%	0.09%	-0.14%	-0.10%	-0.21%	-0.06%
-0.15%	0.04%	-0.21%	-0.15%	-0.24%	-0.09%
-0.16%	0.11%	-0.18%	-0.16%	-0.25%	-0.10%
-0.15%	0.11%	-0.18%	-0.15%	-0.25%	-0.10%
-0.14%	0.10%	-0.25%	-0.14%	-0.18%	-0.05%
-0.16%	0.09%	-0.32%	-0.16%	-0.16%	-0.09%
-0.13%	0.06%	-0.21%	-0.13%	-0.26%	-0.16%
-0.11%	0.03%	-0.17%	-0.11%	-0.52%	-0.07%
-0.12%	-0.01%	-0.15%	-0.12%	-0.20%	-0.08%

**Rmkt Agt
Insurer
Bank**

Citi
FSA
Depfa

RBC
Ambac
BNS

Goldman
Ambac
JPM

Citi
N/A
JPM

BofA
N/A
JPM

BofA
N/A
JPM

Citi
FSA
Depfa

RBC
Ambac
BNS

Goldman
Ambac
JPM

Citi
N/A
JPM

BofA
N/A
JPM

BofA
N/A
JPM

Pay Debt Service and Related Financing Fees

- Use rate tracking sheet to validate invoices
 - Outstanding principal
 - Effective rate
 - Daycount
- Request invoices early to avoid holiday periods and staff absences
- Can often negotiate with trustee to pay monthly instead of weekly
- Prompt service providers for tardy invoices

Meet Compliance Obligations

- Bond documents typically include liquidity/credit provider to be copied on any compliance reporting
- Standby Agreement or Letter of Credit may impose additional reporting obligations
- Perform rebate calculations to identify amounts needed for rebate set-asides
- Bonds may be exempt from continuing disclosure while in variable-rate mode

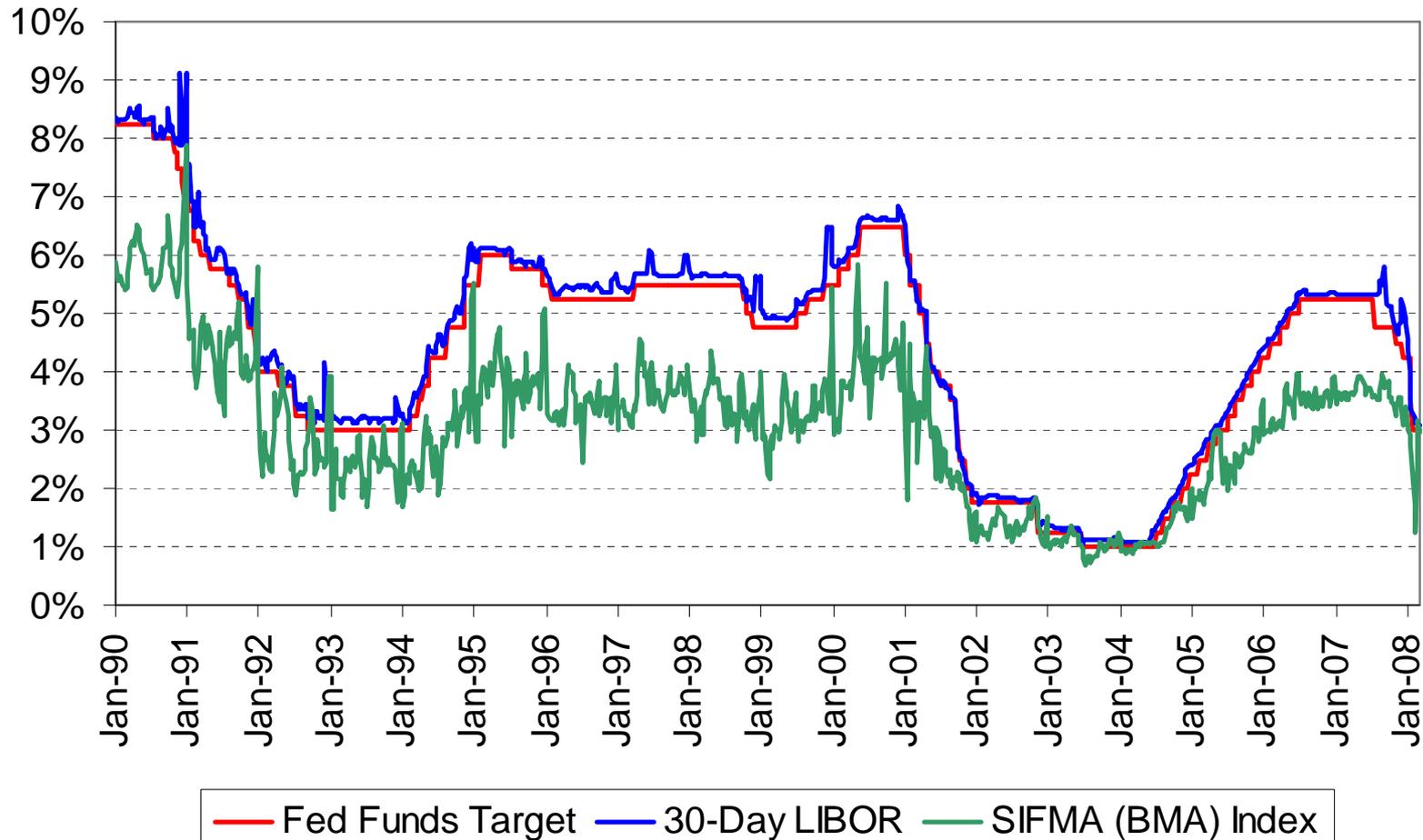
Monitor Status of Credit and Liquidity Facilities

- Be aware of facility expiration dates and renewal timelines
- Periodically collect information on current fee levels
 - If fees are too high, request a reduction
- Weigh potential for lower fees against costs of switching providers
 - Legal fees of negotiating new agreements
 - Changes in key terms and conditions
- Evaluate alternative facility terms
 - Expected trend in fees
 - Market access risk

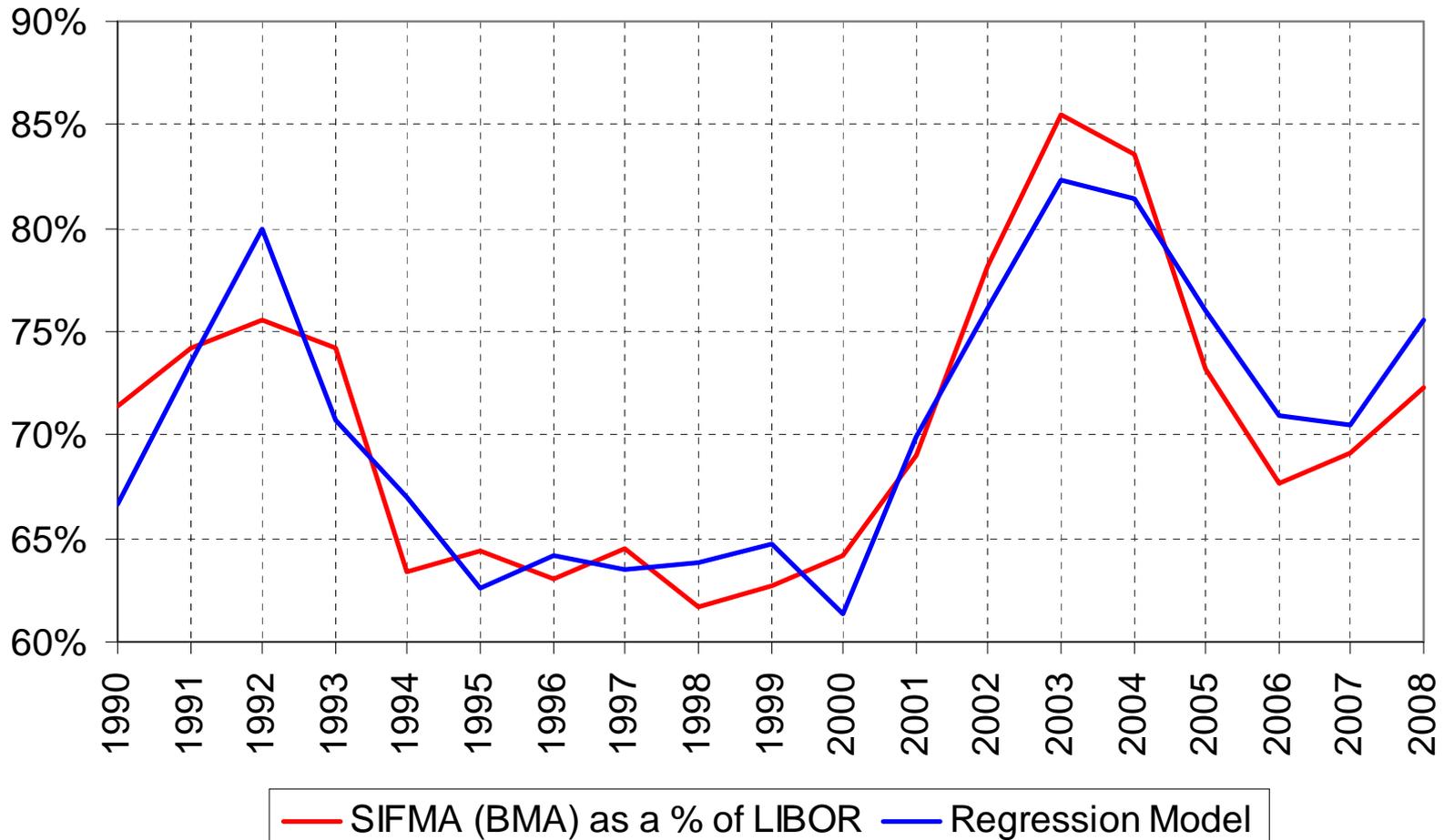
Prepare Budget Projections and Updates

- Goal is to maximize up-front budget capacity while minimizing potential for mid-year impacts
- Short-term interest rates are easy:
 - Fed Funds target drives 30-Day LIBOR
 - 30-Day LIBOR and tax rate drives SIFMA Index
 - Regression analysis provides a decent estimate
 - $SIFMA/LIBOR = 1.3 - (2.9 * LIBOR) - (1.3 * \text{Top Marginal Tax Rate})$
 - $74.29\% = 1.3 - (2.9 * 3.52\%) - (1.3 * 35.0\%)$ vs. 72.29% Actual
 - SIFMA has historically averaged about 70% of LIBOR

Short-Term Interest Rates Follow the Fed Funds Target



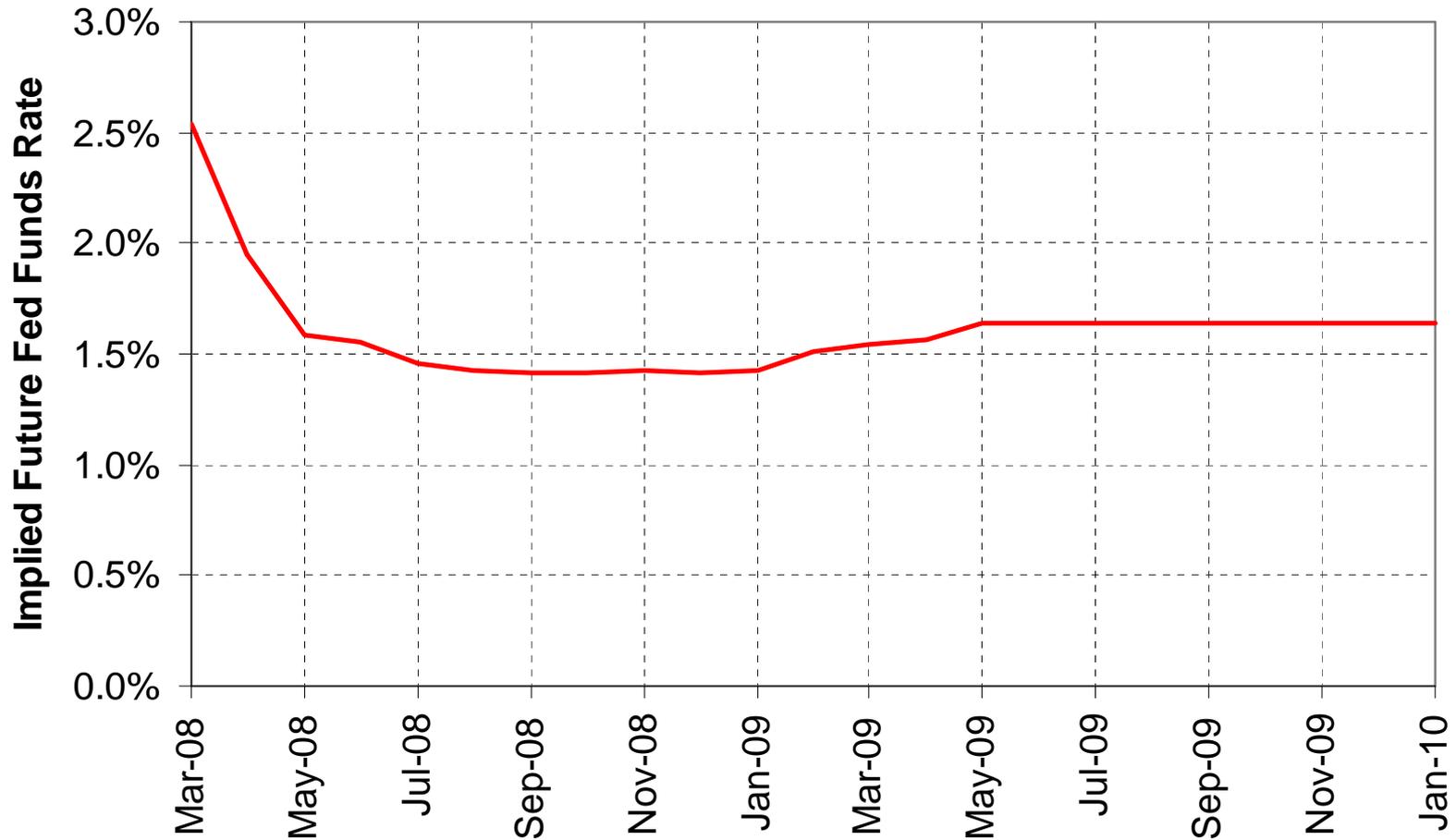
Income Tax Rates and LIBOR Drive Tax-Exempt Short-Term Rates



Prepare Budget Projections and Updates

- Hard part is projecting Fed Funds target – need to understand the Fed’s objectives:
 - Encourage economic growth (low interest rates)
 - Discourage inflation (high interest rates)
 - www.federalreserve.gov/monetarypolicy/fomc.htm
- Goal is to project an average Fed Funds target for the relevant 52-week period
- Fed Funds Futures provide some insight into the market’s perspective
 - www.cbot.com/cbot/pub/page/0,3181,1563,00.html
 - Not considered a good long-term predictor, however
- Periodically compare actual vs. budgeted debt service

Fed Funds Futures Provide Insight into the Market's Perspective



Ongoing Responsibilities - Summary

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Questions?



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