

Living with an Issue: On-Going Bond Administration

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Presentation for:

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How You Should Monitor Your Bond Debt

(with help from your Trustee)

Watch list:

- Current issues in an interesting market
- Interest Earnings on Bond Proceeds
- Calculation of Interest to Bondholders
- Redemption of Bonds
- Guaranteed Investment Contracts
- Cash Flows
- Project Fund Distributions



Issuer & Trustee Working Together

(2008 – Auction Rate Debt)

What should an Issuer do?

- Understand failed Auctions
- Get rid of the Debt
 - Convert mode (takes time)
 - Refund debt/Call bonds (probably takes time)
 - Pay the maximum rate and pray!

What should a Trustee do?

- Communicate!



Issuer & Trustee Working Together

(2008 – Variable Rate Debt)

What should an Issuer do?

- Understand failed Remarketings
- Review Standby Bond Purchase Agreement

What should a Trustee do?

- Communicate!
(with Issuer/Remarketing Agent/Bond holders)
- Understand “Bank Rate” calculation of interest
- Prepare to do more than one interest calculation and payment



Issuer & Trustee Working Together

(2008 – Fixed Rate Debt)

What should an Issuer do?

- Is my debt insured?
- Do I have an Investment Contract?

What should a Trustee do?

- Monitor ratings of all involved parties
- Communicate with Issuer!!!
- Know what happens in the case of a downgrade



30 Years of Funds Movement

Sections of Trust Agreement to Review

- Interest Earnings Section
- Individual Funds Section
 - Costs of Issuance/Delivery Costs Fund
 - Reserve Fund
 - Lease Payments/Installment Payment Fund
 - Debt Service / Principal - Interest Accounts
 - Acquisition/Improvement/Construction/Project Funds



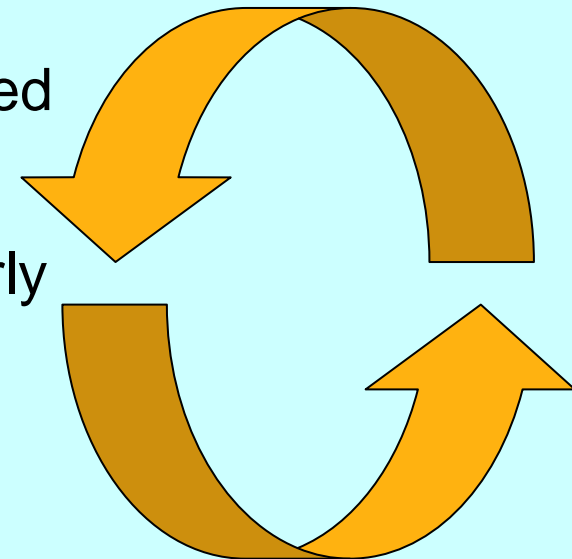
30 Years of Funds Movement

Flow of Interest Earnings:

- Example: from Reserve fund to Project fund

Possible Repercussions!

- Project not fully funded or over-funded
- Reserve requirement not fully met
- Excess funds not being given properly as a credit



30 Years of Funds Movement

Example: Correct Transfer: Reserve Fund Earnings to Project Fund

\$5,000,000

Reserve

Fund

5% earnings
→

3 Year Project Fund

+\$250,000 per year

= \$750,000 total



30 Years of Funds Movement

Example: Incorrect Transfer: Reserve Fund Earnings to Debt Service Fund



After 3 years

***Project Fund
is
\$750,000 short!***



Issuer & Trustee Working Together (Funds Movement)

What might an Issuer do?

- Meet with Trustee after bond closing
- Know and check the movement of interest earnings

What does your Trustee do?

- Set up ticklers correctly using a second set of eyes
(Secondary Review)

30 Years of Investing

Sections of Trust Agreement to Review

- Investment of Moneys in Funds/Accounts
- Individual Funds Sections
- Definition of Permitted Investments
- Rebate Fund?



30 Years of Investing

Investments

- Are they permitted?
- Are you maximizing yield? Do you want to?
- And what about arbitrage/rebate?





Issuer and Trustee Working Together (Investments)

What should an Issuer do?

- Investing is your responsibility
- Understand Arbitrage

What does your Trustee do?

- Investment Services arm of Corporate Trust
- Remind our clients when Arbitrage calculations are due

30 Years of Interest Calculations

Calculation of Interest to Bondholders:

- Variable Rate Debt
- Remarketing Agent sends rates to trustee who inputs into excel spreadsheet

Possible Repercussions!

- Incorrect calculation of interest
- Unhappy Bondholders
- Or *Really* happy Bondholders



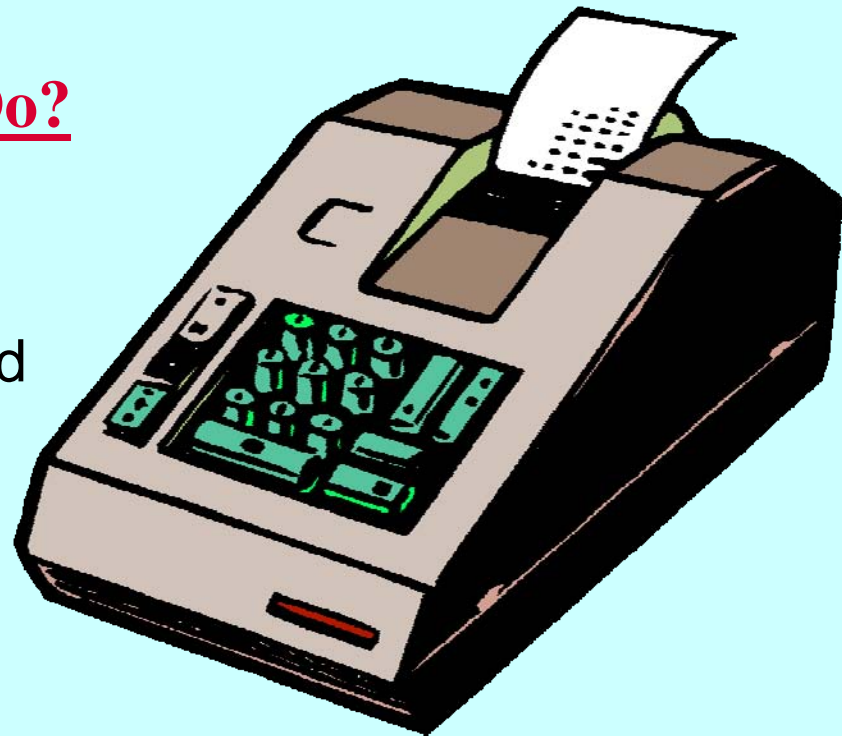
Issuer and Trustee Working Together (Interest Calculations)

What might an Issuer do?

- Receive rates directly from Remarketing Agent
- Check Trustee's numbers prior to interest payment

What does your Trustee Do?

- Uses a second set of eyes
- Entire process is automated



30 Years of GIC-ness

Guaranteed Investment Contracts

- Interest being calculated correctly?
- GIC provider in balance with trustee?
- Most important in project funds

Possible Repercussions:

- Incorrect balance in trust
- All possible earnings not received



30 Years of GIC-ness

Decreases in GIC balances are MANUAL entries for a Trustee

Example: \$20mm Project Fund

- Issuer sends: \$3mm Requisition to Trustee (to pay contractor)
- Trustee draws on GIC
- GIC statement shows \$17mm
- Trustee statement shows?????





Issuer and Trustee Working Together (How to Tame the GIC)

What might an Issuer do?

- Check GIC provider statements vs. Trustee statements

What does your Trustee do?

- Separate, centralized GIC-unit used to monitor all GICs nationally

30 Years of Cash Movement

Sections of Trust Agreement to Review

- Revenue Fund Section
- Flow of Funds Section



30 Years of Cash Movement

Cash Flows:

- Revenue Bond Debt (Marks Roos Debt, in particular)
- From the Revenue Fund, where does my revenue go?

Possible Repercussions!

- Bonds not redeemed correctly
- Project fund not fully funded
- Proper credits not given



Issuer and Trustee Working Together (Feeling the Flow)

What might an Issuer do?

- Know flow of funds, check trustee's work
- Be aware of possible Prepayment
- Know possible redemption dates

What does your Trustee do?

- Thorough review of flow when debt service is paid and/or revenues are received



3 Years of Project Monitoring

Project Fund Distributions:

- Requisitions in numerical sequence
- Amount paid correctly

Possible Repercussions!

- Angry payees
- Payees double paid



Issuer and Trustee Working Together (Monitoring a Project Fund)

What should an Issuer do?

- Make sure that requisitions are numbered correctly
- Check Trustee statements!!!

What does your Trustee do?

- Uses a second set of eyes



30 Years of Bond Bliss

What's an Issuer to Do ~ The Checklist!

- Know and check the movement of Interest Earnings
- Understand your Rebate requirements (what role is your Trustee playing?)
- Verify trustee interest rate spreadsheets (for Variable Rate Debt)
- Understand how and when bonds are to be redeemed (Prepayments)
- Check GIC balance and ask trustee for verification of interest
- Know and check revenue cash flows
- Check Project Fund requisitions



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