

Subject	Commercial Paper Status Report – Information
<b>Summary of Issues</b>	<p>In April, the Authority approved the issuance of Commercial Paper to meet the short-term borrowing needs of certain Measure J projects, in accordance with the Authority’s adopted policy on project advancements.</p> <p>After an RFQ solicitation and subsequent evaluation process, the following financial partners were selected to assist the Authority with its Commercial Paper program:</p> <ul style="list-style-type: none"> <li>• Commercial Paper Dealer: Lehman Brothers</li> <li>• Letter of Credit Provider: Bank of America</li> <li>• Trustee and Issuing and Paying Agent: Deutsche Bank</li> </ul> <p>At the APC meeting, staff will review tasks in the project schedule.</p>
<b>Recommendations</b>	The status report is presented for review and comment.
<b>Financial Implications</b>	The bids received are lower than the originally estimated costs-of-issuance.
<b>Options</b>	N/A
<b>Attachments (See APC Packet dated 6/7/07)</b>	A. Chart showing flow of funds for Commercial Paper.
<b>Changes from Committee</b>	<i>None</i>

### **Background**

In April, the APC and Authority approved the initiation of a Commercial Paper (CP) Program to enable the advance of certain approved Measure J projects. With this approval, staff began work with Mr. Peter Miller (PFM) the Authority’s Financial Advisor, and Ms. Kathleen Leak (Orrick) the Authority’s Bond Counsel. A Request for Qualifications (RFQ) process was initiated for the other financial partners in the Commercial Paper process, the Commercial Paper Dealer, the Letter of Credit Provider, and the Trustee/ Issuing and Paying Agent.

### **Proposed Expenditure Plan**

At the April Authority meeting, a proposed Commercial Paper expenditure plan was reviewed. In May, the sponsors of the SR 4 Bypass and Sand Creek Interchange project, and the Martinez Intermodal project, received approval under the Authority’s policy for Measure J project advances. The total proposed Commercial Paper expenditure plan is now \$69.2 million. The total Commercial Paper program size will be about \$79 million.

Commercial Paper Proposed Expenditure Plan

Project	Borrowing Amount	Estimated Timing of Draws
East County Corridors: SR4 Bypass, Segments 1 and 3; Laurel Rd. ext	\$15 million	August 2007
East County Corridors: SR4 Bypass, Segments 1 and 3; Laurel Rd. ext	\$10 million	December 2007
SR4 East, Somersville to SR160: Right-of-Way purchases	\$18 million	2008 – 2009 Uncertain exact timing of R-o-W parcels
SR4 East, Somersville to SR160: Design services contract	\$ 7 million	Steady amounts per month through 2009
Capitol Corridor Rail Station at Martinez Right-of-Way purchase (Central County)	\$ 6 million	December 2007
East County Corridors: SR4 Bypass: Sand Creek Interchange and Improvements	\$13.2 million (\$8.6 m for interchange, \$4.6 m for widening from Lone Tree)	September 2007
<b>Total</b>	<b><u>\$69.2 million</u></b>	

**Selection of Financial Partners**

- **Commercial Paper Dealer.** As validated at the May Authority meeting, Lehman Brothers was selected as the Authority's Commercial Paper Dealer.
- **Letter-of-Credit Provider.** The Authority also received excellent bids for the Letter-of-Credit provider. The credit quality of all of the respondents was excellent. Bank of America had the lowest bid, at 10 basis points utilized (used Commercial Paper program size), and 8 basis points unutilized. The price was valid for both AA+ and AA ratings levels. The evaluation also included input by the Authority's Commercial Paper Dealer. Bank of America has good California tax exempt Commercial Paper experience. The review panel requested clarification on several terms and conditions in the Bank of America response raised by Bond Counsel, related to indemnification, impairment, and the possibility of increased future costs. The Bank of America clarifications and limitations were considered sufficient by Authority management and staff, Bond Counsel, and the Authority's Financial Advisor. Thus, Bank of America was selected as the Authority's Commercial Paper Letter-of-Credit Provider.
- **Trustee and Issuing and Paying Agent.** This function is filled by a single financial institution. In response to the RFQ, the Authority received proposals from Deutsche Bank, Wells Fargo, and US Bank. After a detailed review, Deutsche Bank was selected as the Authority's Commercial Paper Trustee and Issuing and Paying Agent. The panel reviewed fees and expenses, Commercial Paper experience, local office team qualifications, and the quality and ease of use of the reporting systems.

**Charts Describing Commercial Paper Flow of Funds**

In response to questions, staff and PFM have developed two charts to show how these partners interact with the Authority in the flow of funds for the Commercial Paper.

In Attachment A, Chart 1, the flow of funds is shown for the first issuance of Commercial Paper. Here, the Issuing and Paying Agent issues the initial Commercial Paper notes, and gives them to the Commercial Paper Dealer. The Dealer markets and sells the notes to investors (usually large institutions). The Dealer delivers the proceeds to the Trustee (the same entity as the Issuing and Paying Agent), who delivers the funds to the Authority, or wires the funds to the project sponsor if so directed by the Authority in its requisition instruction.

In Attachment A, Chart 2, the flow of funds for a roll-over of that Commercial Paper issue is shown. Here, the Issuing and Paying Agent requests funds for interest and principal payments on the Commercial Paper issue, from the (direct pay) Letter of Credit provider. The Letter of Credit provider gives these funds to the Issuing and Paying Agent, who pays interest and principal to the holders of the Commercial Paper notes. That same day, the Commercial Paper Dealer markets a new set of Commercial Paper notes (with the denomination including the additional capitalized interest), sells the Commercial Paper notes to a new set of investors. The Dealer then gives the proceeds to the Issuing and Paying Agent, who uses the funds to reimburse the Letter of Credit provider.

**Schedule**

Tasks to date have taken a bit longer, and workloads have been more constrained, than originally anticipated. A revised schedule has been developed that would still result in achieving the August 3rd initial issuance date. However, as this may be difficult, staff has had discussions with ECCRFFA on the firmness of the needs and timing of the initial use of Commercial Paper proceeds. According to ECCRFFA staff, the initial draw could be delayed for a period of time. Given that condition, staff is also working with a schedule with a closing and initial Commercial Paper issue during the week of August 13<sup>th</sup>. This schedule option will be discussed further at the June APC meeting. The tasks remaining involve the development and reaching agreements on the (first Measure J) Indenture, the Issuing and Paying Agent Agreement, the Letter of Credit Reimbursement Agreement, the Offering Memorandum (essentially the prospectus for potential investors), requesting and receiving short term Commercial Paper ratings from Moody's and S&P, and presenting the final documents to the Authority for approval.

**Ratings Update**

Verbally, Moody's has indicated that they will increase the Authority's rating from a Aa3 to a Aa2 rating. This is among the highest ratings for sales tax authorities in California.