REDEVELOPMENT AGENCY AND THE CITY OF OAKLAND

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SUPPLEMENTAL AGENDA REPORT

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TO: Office of the City Administrator/
Executive Director of the Oakland Joint Powers Financing Authority
ATTN: Deborah A. Edgerly
FROM: Finance and Management Agency
DATE: March 18, 2008

RE: **Supplemental Report to Approving The Issuance and Sale of Refunding Revenue Bonds To Refund The Authority's Outstanding Refunding Revenue Bonds, 2005 Series A-1 (Auction Rate Securities) (Tax-Exempt Bonds), 2005 Series A-2 (Auction Rate Securities) (Tax-Exempt Bonds) And 2005 Series B (Auction Rates Securities) (Taxable Bonds)**

SUMMARY

At the March 11, 2008 meeting, the Finance and Management Committee asked staff to provide additional clarification on the fiscal impact to the City associated with the refunding of the Series 2005 Bonds.

FISCAL IMPACT

When the 2005 Bonds were issued, the City paid an interest rate as low as 2%, but now the rates have increased to an average of 10%. In an effort to address the current issues of rising interest rates on auction rate securities (the "ARS") and the downgrade of the 2005 Bonds insurance agency, XL Capital Assurance Inc., staff is recommending the refunding of the 2005 Bonds insurer. Refunding the 2005 Bonds to fixed rate bonds will hedge against rapid rise in interest rate, relieving the City of the maximum interest rate (i.e., 12%) if the ARS were to fail in the market. Since long-term rates are still historically low, the City can secure a lower interest rate for the new bonds, which may result in a future savings for the City. The City can go into a fixed rate mode at rates of approximately 4.10% today. Given the penalty rates we are now experiencing, the savings from this restructuring could be more than $500,000 per month assuming this market disruption persists.

In retrospect, the 2005 Bonds were issued around June 21, 2005, as floating rate securities with 7 and 28 day rate resets. If the 2005 Bonds had been issued as fixed rate bonds, they would have been priced at an approximate rate of 4.76%. The floating rates were on average 1.47% below the rates which would have been fixed in June of 2005 resulting in an average savings on interest costs of approximately $5 million over that approximately 3 year time period.

These securities must be restructured and staying in this mode is no longer an option. Eventually, the auction rate securities market will not exist and would be more costly to fix. Therefore, it is beneficial for the City to get out of the auction rate market earlier than later.

Respectfully submitted,

WILLIAM E. NOLAND
Finance and Management Agency/ Treasurer

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APPROVED AND FORWARDED TO THE
CITY COUNCIL:

Office of the City Administrator/
Executive Director of the Oakland JPFA