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OFFICE OF THE CITY CLERK  
OAKLAND

2012 APR 18 PM 5:57

# AGENDA REPORT

TO: DEANNA J. SANTANA  
CITY ADMINISTRATOR

FROM: Scott P. Johnson

SUBJECT: See Below

DATE: April 11, 2012

City Administrator

Date

Approval

4/18/12

COUNCIL DISTRICT: City-Wide

SUBJECT: Restructuring the Oakland-Alameda County Coliseum Authority's Coliseum Arena Lease Revenue Bonds

## RECOMMENDATION

It is recommended that the City Council adopt a resolution regarding the Oakland-Alameda County Coliseum Authority's (the "Authority") outstanding Lease Revenue Bonds (Oakland Coliseum Arena Project) 1996 Series A-1 and 1996 Series A-2, approving the form and authorizing the execution and delivery by the City of Oakland of one or more Letters of Representations; approving such other documents and the taking of all necessary actions by the City in connection with a restructuring, including the replacement of one or more Letters of Credit and approving the form and distribution of a Remarketing Memorandum in respect of the Oakland-Alameda County Coliseum Authority's outstanding Lease Revenue Bonds; and approving the taking of all necessary actions in connection therewith.

## EXECUTIVE SUMMARY

The Oakland-Alameda County Coliseum Authority was formed in 1995, by the City of Oakland (the "City") and the County of Alameda (the "County") to assist in the financing of public capital improvements including at the Oakland-Alameda Coliseum Complex (the "Coliseum Complex").

On August 2, 1996, the Authority issued \$140 million of Lease Revenue Bonds (Oakland Coliseum Arena Project) 1996 Series A-1 (the "1996 Series A-1 Bonds") and 1996 Series A-2 (the "1996 Series A-2 Bonds" and, together with the 1996 Series A-1 Bonds, the "Arena Bonds"), of which \$95.435 million remain outstanding to finance the costs of constructing the Arena (the "Arena") located at the Coliseum Complex as well as other costs associated with the retention of the Golden State Warriors (the "Warriors") to play professional basketball at the Arena.

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Finance and Management Committee

April 24, 2012

The Arena Bonds are currently in variable rate mode and are being remarketed by Goldman, Sachs & Co. ("Goldman") and Barclays Capital Inc. ("Barclays"), together the "Remarketing Agents"). Also, the payment of principal and interest on the Arena Bonds are supported by irrevocable direct-pay letters of credit issued by The Bank of New York ("BNY"), California State Teachers' Retirement System ("CalSTRS"), and Allied Irish Bank ("AIB"), collectively, the "Existing Letters of Credit". The Existing Letters of Credit are set to expire on July 25, 2012. The Arena Bonds are limited obligations of the Authority payable solely from revenues of the Authority consisting primarily of base rental revenues payable by the City and County pursuant to a Master Lease Agreement with the Authority.

At that time the City also approved a Letter of Representation addressed to the Existing Letters of Credit providers setting forth certain representations and covenants generally contained in the Master Lease Agreement and other documents between the Authority, the City and the County. The City and County are now being requested to approve similar Letters of Representation addressed to replacement banks. In addition, the City and County are each promising to use its best efforts to rebuild the facility in the event of an earthquake.

The global credit crunch in 2008 caused many major banks to face financial difficulty in providing liquidity such as AIB. Also, in 2009, Allied Irish Bank accepted bailout funds from the government of the Republic of Ireland as a part of the Bank Recapitalization plan. As a result of the financial stress AIB faced, rating agencies downgraded AIB to their current ratings of Ba2/BBB/BB. Therefore, the Authority's remarketing agent has struggled to remarket the 1996 Series A-2 Bonds because they are partially supported by a letter of credit from AIB. Since then the 1996 Series A-2 Bonds have been remarketed at 6.8% compared to below 1% before AIB's downgrade and the Republic of Ireland's financial bailout. The Series A-1 with a BNY/CalSTRS letter of credit has continued to be remarketed at less than 0.5% since late 2008.

If the Authority does not replace the Existing Letters of Credit by the expiration date of July 25, 2012, then the Arena Bonds will not be able to be remarketed, the existing Letter of Credit providers will need to purchase the bonds and the annual payments on the bonds will increase to \$19,000,000/year, the maximum rental payment made by the City and County under the Master Lease Agreement with the Authority until or unless the Authority is able to refund the obligation with fixed rate bonds. Also, given the current market condition, the cost of fixing out the bonds would be significantly higher than variable rate because of perceived asset essentiality, seismic criteria, and current weak debt service structure. In addition, premium seat license payments from the Warriors for debt service are currently based on a variable rate bond structure.

The Authority is in the process of negotiating a new letter of credit for the Arena Bonds and therefore, it is in the best interest of the City to adopt the resolution approving execution of the Letters of Representations and Remarketing Memorandum, authorizing the execution of such other related documents as may be necessary in order to replace the Existing Letter of Credit and continue with the variable rate mode for the Bonds. However, if such negotiations fail, then authorize a fixed rate restructuring of the Arena Bonds.

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## OUTCOME

The approval of this recommendation is intended to result in replacing the existing letter of credit providers (The Bank of New York, California State Teachers' Retirement System and Allied Irish Bank) with new letter of credit provider (The Bank of New York Mellon) so that the outstanding bonds may remain in variable rate mode for at least an additional three (3) years, i.e. May 2015, or authorize a fixed rate restructuring. Continuing in variable rate mode is anticipated to save both the City and County significant amounts of money versus a fixed rate refunding on the Arena Bonds, however, a fixed rate refunding may be necessary if the letters of credit cannot be secured.

## BACKGROUND/LEGISLATIVE HISTORY

The Authority is a joint exercise of powers agency organized under the laws of the State of California (the "State") and composed of the County of Alameda (the "County") and the City of Oakland (the "City") created pursuant to an Amended and Restated Joint Exercise of Power Agreement dated as of July 1, 1995. The Authority was formed to assist in the financing of public capital improvements including the Coliseum Complex.

### Arena

On June 11, 1996, the City Council adopted Resolution No. 72715 C.M.S. approving the sale and issuance of up to \$140 million of variable rate lease revenue bonds through a combination of two series; the 1996 Series A-1 Bonds and the 1996 Series A-2 Bonds. At that time the City approved a Master Lease Agreement with the Authority as well as provided Letters of Representation. The Arena Bonds were originally issued to finance the costs of remodeling the Arena and to satisfy certain obligations of the Authority, the City, the County and Coliseum Inc. in connection with the retention of the Golden State Warriors to play professional basketball at the Arena for at least 20 basketball seasons, beginning with the 1997-98 season. The Arena Bonds are issued by the Authority and the security for the Arena Bonds is Base Rental Payments from the City and County to the Authority.

The Arena Bonds are limited obligations of the Authority payable solely from revenues of the Authority, consisting primarily of base rental payments to be received by the Authority from the City and County. These revenues consist of base rental payments from the City and County and certain payments from the Warriors of up to \$7.4 million annually from premium seating revenues, and other payments from Arena operations. The City and County each have covenanted to appropriate up to \$9.5 million annually to cover any revenue shortfalls for a total of \$19 million.

On June 1, 1996, the original Irrevocable Letter of Credit and Reimbursement Agreement (the "Original Agreement") was entered into between the Authority and Canadian Imperial Bank of Commerce. The letters of credit have been replaced and renewed by the Authority several times

after the Original Agreement expired. The current agreement was negotiated in 2007 and provides a letter of credit at a cost of forty basis points (40bps) or 0.40%. Currently, the 1996 Series A-1 Bonds is supported by an irrevocable direct-pay letter of credit issued by BNY and CalSTRS and the 1996 Series A-2 Bonds by Allied Irish Bank and BNY. The current participation of the banks providing the letters of credit are presented in the table below:

	<u>Bank</u>	<u>Participation %</u>	<u>Commitment Amount</u>
1996 Series A-1	BNY	49.96%	\$23,858,398
	CalSTRS	<u>50.04%</u>	<u>\$23,896,602</u>
Total		100.00%	\$47,755,000
1996 Series A-2	BNY	64.46%	\$30,734,528
	Alljed Irish Bank	<u>35.54%</u>	<u>\$16,945,472</u>
Total		100.00%	\$47,680,000

### ANALYSIS

The Authority has explored various options to restructure the Arena Bonds in a manner that is most advantageous to the Authority, which may include, but is not limited to, replacing one or more of the existing letters of credit with new letters of credit to be provided by banks meeting the approval of the Authority, and/or refunding or replacing the bonds with one or more new series of bonds to be publicly issued or privately placed, accruing interest at fixed or variable rates.

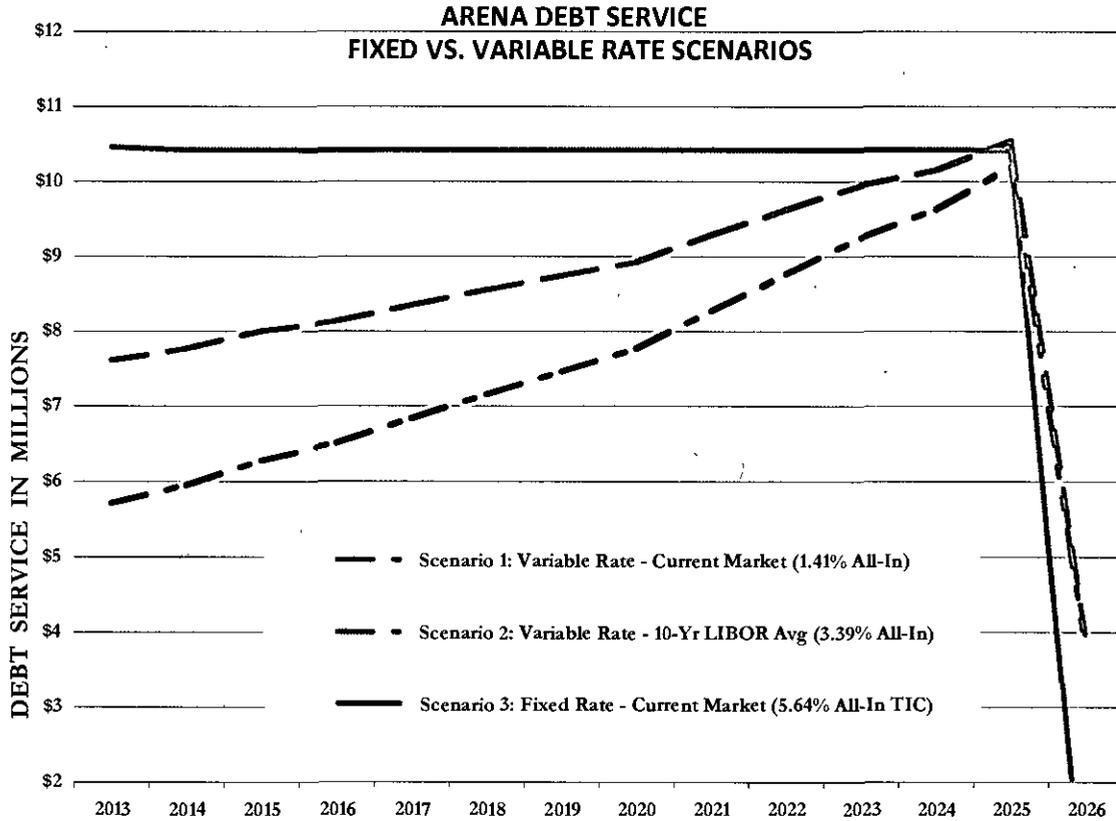
As of March 1, 2012, the outstanding balance the Arena Bonds is approximately \$95.4 million. Given the current conditions (i.e., LOC expiration date of July 25, 2012 and AIB's credit downgrade), the most cost effective option is for the Authority to replace the Existing Letters of Credit.

#### Replacement of Letter of Credit Providers.

The Authority needs to replace the Existing Letter of Credit for the following reasons:

1. Expiration date of the existing LOC of July 25, 2012
2. Remove troubled bank AIB (interest rates on remarketing the 1996 Series A-2 Bonds are currently resetting at 6.8%)
3. To continue remarketing the bonds in variable rate mode (lowest cost option)
4. Premium seat license payments from the Warriors for debt service is currently based on a variable rate bond structure.

The Authority has explored various options for replacing the Existing Letters of Credit. Of the options, the variable rate interest cost is the lowest cost. Total cost (including letter of credit fees) would still be lower than issuing fixed rate bonds. The chart below presents the different scenarios of fixed rate versus variable rate debt service:



As shown in the chart above, given the current market conditions, the cost of fixing out the Arena Bonds would be significantly higher than variable rate because of perceived asset essentiality, seismic criteria, and current weak debt service structure. In addition, premium seat license payments from the Warriors for debt service is currently based on a variable rate bond structure. Therefore, the Authority faces the challenge of renegotiating with the Warriors to change premium seat license payments to fixed rate bonds because a fixed rate bonds structure would increase their payments compared to a variable rate structure.

The advantages and challenges of a variable rate bond structure with letters of credit and a fixed rate bond structure are presented in the table below:

	<b>Variable Rate Bonds</b>	<b>Fixed Rate Bonds</b>
<b>Advantages</b>	<ul style="list-style-type: none"> <li>• Lowest cost alternative</li> <li>• Provides flexibility to call bonds without penalty from naming rights payments, as required by contract</li> <li>• Provides the most flexibility to restructure debt</li> <li>• Credit enhancement(LOC) reduces focus on underlying credit</li> <li>• Relatively immediate replacement of AIB which had been resetting at 6.8%</li> </ul>	<ul style="list-style-type: none"> <li>• Eliminate bank renewal risk</li> <li>• Create long-term budget stability</li> <li>• Current fixed rates are at historic lows</li> </ul>
<b>Challenges</b>	<ul style="list-style-type: none"> <li>• Interest rate risk, i.e. rates likely to increase from current lows although over the next 3 years unlikely to exceed fixed rate alternative</li> <li>• Potential renewal challenges when LOC's expire in 3 years</li> <li>• Bank risk if LOC banks are downgraded resulting in higher interest costs</li> </ul>	<ul style="list-style-type: none"> <li>• Lesser essentiality a marketing challenge, which could result in higher credit spread in pricing</li> <li>• Would increase debt service in short-term and likely over the long-term</li> <li>• Premium seats license with the Warriors-creates the need to renegotiate with the Warriors</li> </ul>

**POLICY ALTERNATIVES**

***Alternative # 1:***

**Do not replace the letter of credit and issue fixed rate debt**

***Pros:***

Known debt service, i.e. no interest rate volatility.

***Cons:***

Will result in significantly higher interest costs without bank liquidity. Also, converting to fixed rate bonds will be more costly due to the many challenges, including potential seismic issues, essentiality, weak debt service structure and the need to reach consensus with the Warriors whose payments from premium seat licenses originally contemplated variable rate debt service. The Authority will have to renegotiate with the Warriors because the payment from premium seat license will be higher if the bonds are fixed rate bonds compared to what they are paying now on variable rate bonds.

***Reason for not recommending:***

This alternative is not recommended for the reasons noted above. However, authorization for a fixed rate restructuring requested if letters of credit cannot be obtained.

**PUBLIC OUTREACH/INTEREST**

This item did not require any additional public outreach other than the required posting on the City's website.

**COORDINATION**

This report has been prepared by the Treasury Division in coordination with City Attorney's Office, Budget Office, County and financing team participants.

**COST SUMMARY/IMPLICATIONS**

Compensation for the City's consultants and the cost of issuance will be paid by the Authority.

**SUSTAINABLE OPPORTUNITIES**

There is no impact to economic, environmental, or social equity opportunities following actions under this report.

**CEQA**

This report is not a project under CEQA.

For questions regarding this report, please contact Katano Kasaine, Treasury Manager, at (510) 238-2989.

Respectfully submitted,

  
SCOTT P. JOHNSON  
Assistant City Administrator

Prepared by:  
Katano Kasaine, Treasury Manager  
Treasury Division

Item: \_\_\_\_\_  
Finance and Management Committee  
April 24, 2012

FILED  
INTRODUCED BY COUNCIL MEMBER \_\_\_\_\_  
OAKLAND

APPROVED AS TO FORM AND LEGALITY  
*Kathleen Helen Boyd*  
CITY ATTORNEY

2012 APR 18 PM 5:57 OAKLAND CITY COUNCIL

RESOLUTION NO. \_\_\_\_\_ C.M.S.

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**RESOLUTION REGARDING THE OAKLAND-ALAMEDA COUNTY COLISEUM AUTHORITY'S OUTSTANDING LEASE REVENUE BONDS (OAKLAND COLISEUM ARENA PROJECT) 1996 SERIES A-1 AND 1996 SERIES A-2, APPROVING THE FORM AND AUTHORIZING THE EXECUTION AND DELIVERY BY THE CITY OF OAKLAND OF ONE OR MORE LETTERS OF REPRESENTATIONS; APPROVING SUCH OTHER DOCUMENTS AND THE TAKING OF ALL NECESSARY ACTIONS BY THE CITY IN CONNECTION WITH A RESTRUCTURING, INCLUDING THE REPLACEMENT OF ONE OR MORE LETTERS OF CREDIT AND APPROVING THE FORM AND DISTRIBUTION OF A REMARKETING MEMORANDUM IN RESPECT OF THE OAKLAND-ALAMEDA COUNTY COLISEUM AUTHORITY'S OUTSTANDING LEASE REVENUE BONDS; AND APPROVING THE TAKING OF ALL NECESSARY ACTIONS IN CONNECTION THEREWITH**

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**WHEREAS**, the City of Oakland (the "City") and the County of Alameda (the "County") have heretofore executed an Amended and Restated Joint Exercise of Powers Agreement dated as of July 1, 1995 (as amended and restated, the "Joint Powers Agreement"), which Joint Powers Agreement creates and establishes the Oakland-Alameda County Coliseum Authority (the "Authority"); and

**WHEREAS**, pursuant to Article 4 of Chapter 5 of Division 7 of Title 1 of Government Code of the State of California (the "Act") and the Joint Powers Agreement, the Authority is authorized to issue bonds for financing public capital improvements whenever there are significant public benefits; and

**WHEREAS**, by Ordinance No. 11888 C.M.S. adopted May 1, 1996 ("Ordinance 11888") by the City Council of the City (the "City Council") and Resolution No. 72715 adopted by the City Council on June 11, 1996, the City Council previously approved the Authority's issuance of not to exceed \$140 million aggregate principal amount of Oakland-Alameda County Coliseum Authority Lease Revenue Bonds (Oakland Coliseum Arena Project) 1996 Series A-1 (the "1996 Series A-1 Bonds") and 1996 Series A-2 (the "1996 Series A-2 Bonds" and, together with the 1996 Series A-1 Bonds, the "Bonds"), of which \$95,435,000 remain outstanding, which Bonds were originally issued to finance improvements to and expansion of the Oakland-Alameda County Coliseum Arena (the "Arena") and other costs and payments required to induce CC Partners, a California partnership d/b/a Golden State Warriors (the "Warriors") to continue to play its home basketball games at the Arena (collectively, the "Arena Project"); and

**WHEREAS**, the payment of principal of, premium, if any, and interest on the 1996 Series A-1 Bonds is supported by an irrevocable direct-pay letter of credit issued severally and not jointly by The Bank of New York and California State Teachers' Retirement System (the "Existing 1996 Series A-1 Letter of Credit"); and

**WHEREAS**, the payment of principal of, premium, if any, and interest on the 1996 Series A-2 Bonds is supported by an irrevocable direct-pay letter of credit issued severally and not jointly by Allied Irish Banks, p.l.c., New York Branch, and The Bank of New York (the "Existing 1996 Series A-2 Letter of Credit" and together with the Existing 1996 Series A-1 Letter of Credit, the "Existing Letters of Credit"); and

**WHEREAS**, the Trust Agreement for the Bonds, dated as of June 1, 1996 (as supplemented and amended, the "Trust Agreement"), between the Authority and The Bank of New York Mellon Trust Company, N.A., as successor trustee (the "Trustee"), provides for new letters of credit to be delivered from time to time for the purpose of providing credit and liquidity support for the Bonds; and

**WHEREAS**, the Existing Letters of Credit will expire by their terms on July 25, 2012, and the Authority is proceeding to restructure the Bonds in the manner that is the most advantageous to the Authority, which may include but is not limited to replacing one or more of the Existing Letters of Credit with new letters of credit to be provided by banks meeting the approval of the Authority (individually or collectively, the "New Letters of Credit"), and/or refunding or replacing the Bonds with one or more new series of bonds to be publicly issued or privately placed, accruing interest at fixed or variable rates ("Refunding Bonds", and together with the New Letters of Credit, collectively, the "Restructuring"); and

**WHEREAS**, in connection with the delivery of any New Letters of Credit, the City is expected to be required to deliver one or more letters of representations (the "Letters of Representations") to the provider or providers of such New Letters of Credit; and

**WHEREAS**, in connection with the Restructuring and to provide certain information about the Bonds, any Refunding Bonds, any New Letters of Credit and the providers thereof, the Arena Project, the City, the County and the Authority to purchasers and potential purchasers of the Bonds, there has been prepared a proposed form of Remarketing Memorandum (the "Remarketing Memorandum"); and

**WHEREAS**, the Authority has appointed Orrick, Herrington & Sutcliffe LLP as bond counsel and disclosure counsel ("Bond and Disclosure Counsel") and KNN Public Finance as financial advisor (the "Financial Advisor") with respect to the transactions described in this Resolution; and

**WHEREAS**, there have been submitted and are on file with the Clerk of this City Council (the "Clerk") the proposed form of Remarketing Memorandum; the proposed form of letter of representations from the City (the "Letter of Representations" and, together with the Remarketing Memorandum, collectively, the "Transaction Documents"); and

**WHEREAS**, this City Council desires to authorize the Transaction Documents, and to direct the execution by the City of such of the Transaction Documents as to which the City is a party, and the consummation of the transactions contemplated by this Resolution; and

**WHEREAS**, all acts, conditions and things required by the Charter of the City and the laws of the State of California to exist, to have happened and to have been performed precedent to and in connection with the consummation of the transactions authorized hereby do exist, have happened and have been performed in regular and due time, form and manner as required by law, and the City is now duly authorized and empowered, pursuant to each and every requirement of law, to consummate such transactions for the purpose, in the manner and upon the terms herein provided; now, therefore be it

**RESOLVED**: That by the City Council of the City of Oakland as follows:

Section 1. Recitals. All of the above recitals are true and correct.

Section 2. Remarketing Memorandum. The City Council hereby authorizes and directs the City Administrator, the Deputy City Administrator or such other officer of the City designated by the City Administrator in writing (each such officer being hereinafter referred to as an "Authorized Representative"), at or after the time the form of Remarketing Memorandum relating to the Bonds and the Restructuring, including any New Letters of Credit, has been authorized and approved by the Authority, to execute and deliver one or more certificates substantially to the effect that the statements contained in the Remarketing Memorandum (insofar as such statements relate to the City and the Arena Project) are true and correct and do not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading. The underwriters or remarketing agents, as applicable, designated by the Authority with respect to the Restructuring are hereby authorized to distribute (via printed format and/or electronic means) the Remarketing Memorandum, in connection with the remarketing of the Bonds and/or the marketing of any Refunding Bonds to the public or other purchaser. The remarketing agents or underwriters, as applicable, are hereby further authorized to distribute (via printed format and/or through electronic means) copies of the City's most recent annual audited financial statements and such other financial statements of the City as an Authorized Representative shall approve.

Section 3. Letters of Representation. The form of the Letter of Representation, in substantially the form on file with the Clerk and attached to this Resolution as Exhibit A, is hereby approved and authorized. The Authorized Representative is hereby authorized to execute one or more instruments in substantially said form, completed with terms as shall be agreed to by the Authorized Representative in accordance with this Resolution, and with such additions, changes or modifications therein as the Authorized Representative, upon consultation with legal counsel, may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof. The City hereby covenants and agrees that it will comply with and carry out all of the provisions of such Letters of Representation as finally executed and delivered.

**Section 4. Authorization of Further Actions.** (a) The Authority, the designated remarketing agents and underwriters, Bond and Disclosure Counsel, the Financial Advisor, and the Authorized Representatives and other appropriate City officials are hereby authorized and directed to continue to prepare the necessary legal documents to accomplish the transactions authorized herein, and to take any and all necessary actions in connection therewith.

(b) The Authorized Representative and other appropriate City officials are hereby authorized and directed, without further action by the City Council, to take such actions and execute and deliver such letters of representation, certificates, continuing disclosure undertakings, amendments and/or other instruments, and to approve the preparation and distribution of any official statement or reoffering memorandum as shall be necessary or required in respect of the Bonds and the Restructuring, in connection with any amendment or substitution of any letter of credit or delivery of other credit facility, remarketing, refunding or defeasance of all or a portion of the Bonds, or the conversion of all or any portion of the Bonds to one or more new interest rate modes (including but not limited to a fixed rate mode or term mode), all as shall be in accordance with the Trust Agreement, as now in effect and as may be supplemented, amended or replaced from time to time in accordance with its terms.

(c) The officers and employees of the City are hereby authorized and directed, jointly and severally, to do any and all things which they may deem necessary or advisable in order to consummate the transactions herein authorized, and otherwise to carry out, give effect to and comply with the terms and intent of this Resolution. The Authorized Representative is hereby authorized and directed to execute and deliver any and all amendments, notices, certificates and representations, including signature certificates, no-litigation certificates, tax certificates, certificates relating to continuing disclosure obligations, notices to the California Debt and Investment Advisory Commission, and certificates concerning the Remarketing Memorandum, and to enter into such agreements or contracts, including as may be necessary to the consummation, as such officers deem necessary and desirable to accomplish the purposes of this Resolution.

**Section 5. Ratification of Actions.** All actions heretofore taken by the officers and agents of the City with respect to the Bonds, the Restructuring, the New Letters of Credit, the Arena Project and such other transactions not inconsistent with this Resolution, are hereby approved, confirmed and ratified.

Section 6. Effective Date. This Resolution shall take effect immediately from and after its adoption.

In Council, Oakland, California, May , 2012.

**PASSED BY THE FOLLOWING VOTE:**

**AYES:**

**BROOKS, BRUNNER, DE LA FUENTE, KERNIGHAN, NADEL, SCHAAF, and  
PRESIDENT REID**

**NOES:**

**ABSENT:**

**ABSTENTION:**

**ATTEST:**

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**LA TONDA SIMMONS**  
City Clerk and Clerk of the City Council  
City of Oakland, California

EXHIBIT A

[ATTACH FORM OF LETTER OF REPRESENTATIONS]

**CERTIFICATE OF THE CITY CLERK**

I, La Tonda Simmons, City Clerk and Clerk of the Council of the City of Oakland (the "City"), hereby certify that the foregoing is a full, true and correct copy of Resolution No. \_\_\_\_, duly adopted at a meeting of the City Council of the City duly and regularly held on \_\_\_\_, 2012, of which meeting all of said City Council had due notice.

I further certify that I have carefully compared the foregoing copy with the original minutes of said meeting on file and of record in my office; that said copy is a true, complete and correct copy of the original resolution duly adopted at said meeting and entered in said minutes; and that said resolution has not been modified, amended, rescinded or revoked except as provided in such resolution in any manner since the date of their adoption, and the same is now in full force and effect.

IN WITNESS WHEREOF, I have executed this certificate this \_\_\_\_ day of \_\_\_\_\_ 2012.

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LA TONDA SIMMONS  
City Clerk and Clerk of the City Council  
City of Oakland, California