Agenda Item #:________________________

Staff Report

City of Manhattan Beach

TO: Members of the Finance Subcommittee

FROM: Bruce Moe, Finance Director
Henry Mitzner, Controller

DATE: June 19, 2012

SUBJECT: Consideration of Plan to Replace Letters of Credit in Support of the 2002 Marine Avenue Sports Fields Certificates of Participation and the 2001 South Bay Regional Public Communications Authority Revenue Bonds, Including Paying off the South Bay Regional Public Communications Authority Revenue Bonds; and Authorization to Expend Funds in Preparation for Replacement Letters of Credit

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RECOMMENDATION:
Staff recommends that the Finance Subcommittee approve the Plan to Replace the existing Letter of Credit for the Marine Avenue Sports Fields Certificates of Participation (COPs), payoff the existing Letter of Credit for the South Bay Regional Public Communications Authority Revenue Bonds, and authorize expenditure of funds necessary to begin the process ($20,000).

FISCAL IMPLICATION:
Fiscal implications are discussed below.

DISCUSSION:
For the past several years, the City has maintained direct pay letters of credit (LC) from Bank of America in support of the 2002 Marine Avenue Certificates of Participation (COPs) and the 2001 South Bay Regional Public Communications Authority Series C variable rate Revenue Bonds. Both LC's have been extended to September 1, 2012, however, Bank of America has indicated that they will not be renewing them on a longer term basis due to lack of a broader-based banking relationship with the City and the small size of each issue. As a result, the City contacted Union Bank (UBOC) the City's main banking partner, and has negotiated the terms for replacement LC's within the attached proposal (see attachment). In summary, UBOC will maintain the same LC cost currently offered by Bank of America (100 basis points per LC).

For both the Marine Avenue Sports Fields and South Bay Regional Communications Authority debt, the direct pay letter of credit is the credit facility that provides liquidity for the monthly interest expense payments and bi-annual principal payments. Draws are made to the LC's each month and are reimbursed by the City. This is the key component of the variable rate debt instruments.

The following is a brief overview of the components of the City's variable rate debt:

- Variable Interest Rate – this is the rate used to calculate the interest due on the COPs and Revenue Bonds outstanding. This rate is variable and resets every week.

- Remarketing Fees – this fee is paid to the remarketing agent who remarkets the COPs every week. The City's remarketing agent on the 2002 Marine Avenue COP's is currently Bank of America and the remarketing fee paid is 0.09% or 9 basis points. The City's remarketing agent on the 2001 South Bay Regional Public Communications Authority Variable Rate COP's Series C is Morgan Stanley and the remarketing fee paid is 0.125% or 12.5 basis points. Staff is reviewing the options for remarketing the new LC's and will include that in the final report to City Council for approval.

- Direct Pay Letter of Credit – this is the credit facility that provides liquidity for the monthly interest expense payments and bi-annual principal payments. Draws are made to the LC each month and are reimbursed each month by the City.

The following is a breakdown of the total cost of each issue:

<u>Marine Avenue COP's:</u>

	Current terms (expires 9/1/12)
Average variable interest (no draw fee)	20 basis points
Remarketing rate	9 basis points
Direct pay LOC (effective rate)	102 basis points
Total Overall Costs	131 basis points (1.31%)

<u>South Bay Regional Public Communications Authority (RCC):</u>

	Current terms (expires 9/1/12)
Average variable interest (incl. draw fee)	48 basis points
Remarketing rate	13 basis points
Direct pay LOC (effective rate)	102 basis points
Total Overall Costs	163 basis points (1.63%)

Options

Staff has identified three options for replacing these LC's. All three involve Union Bank as issuer of the replacement LC's.

Option #1 – Continue to Maintain Two Separate Letters of Credit
This option would continue the current arrangement of separate LC's for Marine Avenue and RCC. Bank counsel legal fees of $15,000 to $20,000 are incurred for each LC. Additionally, bond/disclosure counsel costs will be approximately $25,000 for both LC's. The total cost of this option is estimated to be $83,925.

Option #2 – Payoff the SBRPCA Letter of Credit and Issue a New Letter of Credit for the Marine Avenue COPs
The total incremental cost of replacing the RCC LC is $35,815 (2.5% of the outstanding balance). These costs can be avoided by paying off the RCC bonds. When considering on-going costs (LC, remarketing, draw fees, etc.) the estimated annual cost of RCC borrowing is approximately 1.63% (excluding the incremental issuance costs). The City's portfolio yield is .996%, while LAIF is earning .363%. Further, a five year investment available to the City today such as an agency bullet yields .99%. When comparing alternative uses of funds, it is beneficial to pay off the balance of the RCC bonds of $1.45 million. Marine Avenue COPs can continue to be financed with a replacement LC at an up-front cost of $47,480 (.6% of the outstanding balance).

Option #3 – Combine the two Letters of Credit into One LC
This option would combine Marine Avenue and RCC LC's. Some savings are achieved through reduced bank counsel fees ($15,000 to $20,000) but are more than offset by higher bond/disclosure counsel fees (+$40,000) and rating agency fees due to the complexities of merging the facilities. The total cost of this option is $110,000.

Letter of Credit Substitution Options

	Remarketing RCC & Marine Separately	Remarketing Marine	Refunding Both Deals Into One
Bond/Disclosure Counsel	$25,000	$15,000	$55,000
Rating Agency	10,000	5,000	10,000
Letter of Credit Counsel	40,000	20,000	20,000
Remarketing Placement Fee	8,925	7,480	25,000
Total	$83,925	$47,480	$110,000

Based on these costs, staff recommends Option #2 as the most cost effective solution.

The LC's with Bank of America expire on September 1, 2012. Replacement facilities need to be in place by August 1st at the latest. In order to get started, staff recommends that the Finance Subcommittee authorize the expenditure of up to $20,000 with UBOC to begin the bank counsel process (other fees listed above will be approved by the City Council at a later date). Further, a remarketing agent for the LC's will need to be identified; staff is in the process of receiving proposals for this service and will make a recommendation in the report to City Council. Finally, a

key component of this recommendation is paying off the existing RCC LC for approximately $1.45 million. This can be accomplished by using CIP fund balance or Economic Uncertainty reserves in the General Fund, in conjunction with the RCC debt service reserve fund ($157,476). The final source will be identified in the City Council report.

City of Manhattan Beach, California

Letters of Credit Proposal
(See attached.)

<u>Revised June 6, 2012</u>

UnionBank

June 6, 2012

Mr. Bruce Moe
Finance Director
City of Manhattan Beach
1400 Highland Ave.
Manhattan Beach, CA 90266

Re: (1) South Bay Regional Public Communications Authority Variable Rate Demand Revenue Bonds, 2001 Series C (City of Manhattan Beach Project), currently outstanding in the amount of $1,445,000 ("Facility 1")
(2) City of Manhattan Beach Variable Rate Demand Refunding Certificates of Participation (Marine Sports Field Capital Lease Refinancing) Series 2002, currently outstanding in the amount of $7,480,000 ("Facility 2")

Dear Mr. Moe:

Union Bank, N.A., ("UB" or the "Bank"), is pleased to indicate its interest in providing the City of Manhattan Beach, California (the "City" or the "Borrower") with this indicative proposal for the issuance of two (2) letter of credit facilities ("Facility 1" and "Facility 2", together, the "Facilities") in the amounts as shown above (plus required interest coverage), to provide credit enhancement and liquidity support with respect to the above referenced bonds and certificates of participation.

Union Bank has been a lender to the municipal market for well over 20 years. Its Public Finance team is comprised of seasoned professionals, who together have over 90 years experience providing a wide range of municipal structures to a variety of issuers nationwide. Union Bank is a member of the Mitsubishi UFJ Financial Group (MUFG, NYSE:MTU), one of the world's largest financial organizations. In addition to Union Bank and The Bank of Tokyo-Mitsubishi UFJ, MUFG is also parent to Mitsubishi UFJ Securities (MUS). Please refer to Exhibit 2 for a description of MUS and its remarketing services. Please note, however, that retention of MUS is not a condition of obtaining credit from Union Bank.

This proposal does not represent a commitment by the Bank to provide any Facilities, but is merely an outline of the general terms and conditions under which the Bank would provide said Facilities. Formal credit approval will be required prior to the extension of any Facilities and the Bank's commitment will be subject to satisfactory negotiation of other terms and conditions and the execution and delivery of documentation necessary or appropriate for a transaction of this type in form, scope and substance satisfactory to the Bank and its counsel. Upon mandate, credit approval will be sought within three weeks of the receipt of all necessary supporting materials required to complete due diligence. The terms as stated herein are valid until 5:00 pm PST, on July 6, 2012.

We appreciate the opportunity to express our interest in this transaction and look forward to your response. If you should have any questions regarding this proposal, please do not hesitate to contact Karen Coleman at 213-236-6435 or karen.coleman@unionbank.com.

Best regards,

Karen Coleman

Karen Coleman
Vice President
Public Finance Group

Karen Coleman
Vice President
Public Finance Group

Direct 213 236 6435 | Fax 213 236 6917
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Union Bank | 445 South Figueroa Street, G08-268|Los Angeles, CA 90071
karen.coleman@unionbank.com | unionbank.com

UnionBank

City of Manhattan Beach, CA

South Bay Regional Public Communications Authority
Variable Rate Demand Revenue Bonds
Series C (City of Manhattan Beach Project)

Terms and Conditions

ISSUER:	South Bay Regional Public Communications Authority (the "Issuer" or the "Authority").
OBLIGOR:	City of Manhattan Beach, California ("Obligor" or the "City").
FACILITY TYPE:	Direct Pay Letter of Credit (the "Facility 1").
PURPOSE:	To provide credit enhancement and liquidity support for the 2001 Series C Variable Rate Demand Revenue Bonds (the "Bonds").
SECURITY:	The Revenues paid by the City to the Authority per the City's existing Operating Agreement, which are pledged and assigned to secure the payment of principal and interest on the Bonds per the existing Indenture.
FACILITY AMOUNT:	$1,445,000 in principal (plus applicable interest coverage).
FACILITY TERM:	3-years (may be renewed at the request of the Borrower and at the sole option of the Bank).
FACILITY FEE:	100 bps. *See Exhibit 1 for alteration to the Facility Fee if the City's bond debt ratings are downgraded.*
EARLY TERMINATION FEE:	If Facility 1 is cancelled within the first year following the closing date for any reason, other than as a result of a short-term rating downgrade of the Bank, resulting in one or more short-term ratings of the Bank being reduced below "A-1/P-1/F1", the minimum fee would be one year of Facility Fees, less the amount already paid to the Bank. In the event any of the Bank's short term ratings fall below A-1/P-1/F1, no termination fee should be due and payable.
UPFRONT FEE:	None.
DRAW FEE:	$250 per draw, payable at the time of each draw. No annual cap.

BANK LEGAL COUNSEL: Chapman and Cutler LLP
111 West Monroe Street
Chicago, Illinois 60603-4080

David Field, Partner
Tel - 312-845-3792
dfield@chapman.com

BANK COUNSEL FEE: Estimated at $15,000 and capped at $20,000.

INTEREST RATE ON LIQUIDITY DRAWS: The interest rate on unreimbursed drawings will be: from and including the date of purchase through and including the date 180 days thereafter: the highest of (i) the Base Rate, or (ii) the highest rate of interest on any outstanding Bonds which are not Bank Bonds. From and including the earlier to occur of (i) the date 181 days after the date of purchase and (ii) the expiry date of the Facility and thereafter, interest on unreimbursed drawings will convert to (i) the Base Rate + 1.0%, or (ii) the highest rate of interest on any outstanding Bonds which are not Bank Bonds, provided no event of default has occurred or is continuing. Interest on unreimbursed drawings shall be computed based upon a 365 day year and the actual number of days elapsed.

The "Base Rate" is the highest of (i) Union Bank Reference Rate[1] + 2.0%; (ii) the 30-day LIBOR Rate + 2.0%; or (iii) 7.00% per annum.

The Default Rate is the Base Rate plus 300 bps per annum.

REPAYMENT OF DRAWS: Normal and standard for a transaction of this type.

OTHER COVENANT, TERMS AND CONDITIONS PRECEDENT: Normal and standard for a transaction of this type. A Facility that will be acceptable to all parties and will include, but not be limited to, conditions precedent, representations and warranties, events of default, cross default provisions, increased cost/reduced return provisions, financial covenants, financial

[1] Reference Rate means the rate of interest publicly announced from time to time by Union Bank as its "reference rate," which is a rate generally tied to its "Prime Rate" and is set by the Bank based upon various factors including the Bank's costs and desired return, general economic conditions and other factors, and is used as a reference point for pricing some loans, which may be priced at, above, or below such announced rate.

reporting, indemnification protection, waiver of jury trial/judicial reference, waiver of any right to sovereign immunity, and such other provisions as the Bank determines to be appropriate in this type of transaction.

FACILITY PROVIDER:

Union Bank, N.A.
445 S. Figueroa St., 8th Floor
Los Angeles, CA 90071

Karen Coleman, VP
Public Finance Group
Phone: (213) 236-6435
Fax: (213) 236-6917
karen.coleman@unionbank.com

BANK RATINGS:

Moody's	S & P	Fitch
A2 / P-1	A+ / A-1	A / F1

City of Manhattan Beach, CA

Variable Rate Demand Refunding Certificates of Participation
(Marine Sports Field Capital Lease Refinancing) Series 2002

Terms and Conditions

ISSUER:	Manhattan Beach Capital Improvements Corporation (the "Issuer" or the "Corporation").
OBLIGOR:	City of Manhattan Beach, California ("Obligor" or the "City").
FACILITY TYPE:	Direct Pay Letter of Credit (the "Facility 2").
PURPOSE:	To provide credit enhancement and liquidity support for the 2002 Variable Rate Demand Refunding Certificates of Participation (the "COPs").
SECURITY:	Annual appropriation of Lease Payments from any legally available funds paid by the City to the Corporation in consideration for the use and occupancy of the Property as required under the existing Lease Agreement, and subject to abatement.
FACILITY AMOUNT:	$7,480,000 in principal (plus applicable interest coverage).
FACILITY TERM:	3-years (may be renewed at the request of the Borrower and at the sole option of the Bank).
FACILITY FEE:	100 bps. *See Exhibit 1 for alteration to the Facility Fee in the event the City's COPs debt ratings are downgraded.*
EARLY TERMINATION FEE:	If Facility 2 is cancelled within the first year following the closing date for any reason, other than as a result of a short-term rating downgrade of the Bank, resulting in one or more short-term ratings of the Bank being reduced below "A-1/P-1/F1", the minimum fee would be one year of Facility Fees, less the amount already paid to the Bank. In the event any of the Bank's short term ratings fall below A-1/P-1/F1, no termination fee should be due and payable.

UPFRONT FEE:	None.
DRAW FEE:	$250 per draw, payable at the time of each draw. No annual cap.
BANK LEGAL COUNSEL:	Chapman and Cutler LLP 111 West Monroe Street Chicago, Illinois 60603-4080 David Field, Partner Tel - 312-845-3792 dfield@chapman.com
BANK COUNSEL FEE:	Estimated at $15,000 and capped at $20,000.
INTEREST RATE ON LIQUIDITY DRAWS:	The interest rate on unreimbursed drawings will be: from and including the date of purchase through and including the date 180 days thereafter: the highest of (i) the Base Rate, or (ii) the highest rate of interest on any outstanding COPs which are not Bank Certificates and from and including the earlier to occur of (i) the date 181 days after the date of purchase and (ii) the expiry date of the Facility and thereafter, the unreimbursed drawings will bear interest at (i) the Base Rate + 1%, or (ii) the highest rate of interest on any outstanding COPs which are not Bank Certificates, provided no event of default has occurred or is continuing. Interest on unreimbursed drawings shall be computed based upon a 365 day year and the actual number of days elapsed. The "Base Rate" is the highest of (i) Union Bank Reference Rate[2] + 2.0%; (ii) the 30-day LIBOR Rate + 2.0%; or (iii) 7.00% per annum. The Default Rate is the Base Rate plus 300 bps per annum.
REPAYMENT OF DRAWS:	Normal and standard for a transaction of this type.

[2] Reference Rate means the rate of interest publicly announced from time to time by Union Bank as its "reference rate," which is a rate generally tied to its "Prime Rate" and is set by the Bank based upon various factors including the Bank's costs and desired return, general economic conditions and other factors, and is used as a reference point for pricing some loans, which may be priced at, above, or below such announced rate.

OTHER COVENANT, TERMS AND CONDITIONS PRECEDENT:

Normal and standard for a transaction of this type. A Facility that will be acceptable to all parties and will include, but not be limited to, conditions precedent, representations and warranties, events of default, cross default provisions, increased cost/reduced return provisions, financial covenants, financial reporting, indemnification protection, waiver of jury trial/judicial reference, waiver of any right to sovereign immunity, and such other provisions as the Bank determines to be appropriate in this type of transaction.

FACILITY PROVIDER:

Union Bank, N.A.
445 S. Figueroa St. 8th Floor,
Los Angeles, CA 90071

Karen Coleman, VP
Public Finance Group
Phone: (213) 236-6425
Fax: (213) 236-6917
karen.coleman@unionbank.com

BANK RATINGS:

Moody's	S & P	Fitch
A2 / P-1	A+ / A-1	A / F1

This proposal (Facilities 1 and 2) is not a commitment by us and nothing contained herein should be construed, explicitly or implicitly, as such. We expect to engage in further discussions with you and obtain additional information before deciding whether to pursue internal credit approval to provide such a commitment. The terms and conditions in this proposal are a preliminary outline of some of the essential terms and conditions for which we would request approval but does not purport to summarize all of the conditions, covenants, representations, warranties and other provisions which would be contained in any definitive documentation. If you wish that we proceed, we expect the credit approval process to take approximately three weeks. Additionally, financial terms and conditions of this letter do not become your obligation until we issue and you accept our commitment letter.

This proposal is confidential, for your sole use. Neither this proposal nor any of its contents may be disclosed to any person or entity except to your officers, directors, employees, accountants, attorneys, or advisors who have a need to know as a result of being involved in the Facility and are advised of the confidential nature of this proposal and the terms hereof.

EXHIBIT 1
(Applies to Facilities 1 and 2)

<u>FACILITY FEE ADJUSTMENTS</u>:

Level	S&P Rating	Facility Fee Rate Increase	Facility Fee
0	AA+ or above	+0.00% p.a.	100.0bps.
1	AA	0.025% p.a.	102.5bps.
2	AA-	+0.05% p.a.	107.5bps.
3	A+	+0.10% p.a.	117.5bps.
4	A	+0.15% p.a.	132.5bps.
5	A-	+0.25% p.a.	157.5bps.
6	BBB+	+0.35% p.a.	192.5bps.
7	BBB	+0.50% p.a.	242.5bps.
8	BBB-	+1.00% p.a.	342.5bps.
9	Below BBB-	+1.50% p.a.	492.5bps.

Reference in the grid above to S&P and Moody's (the "Rating Agencies") ratings are a reference to the rating categories of those Rating Agencies as presently determined. In the event S&P or Moody's adopts a new or recalibrated rating system that applies to the District's respective debt secured on a parity with the Bonds or COPs, the column in the grid above containing the Rating Agency's Rating will be adjusted, if necessary, upward or downward, so that the "new" Rating assigned to the Borrower's respective debt will not, without further action (i.e., upgrade or downgrade in such Rating Agency's assessment of the Obligor's creditworthiness) result in a change in Facility Fee Rate. If a change in the Borrower's creditworthiness occurs at the same time as any new rating system is adopted or recalibration occurs, then both events will be taken into consideration.

Upon the occurrence and continuance of an Event of Default (other than a ratings downgrade Event of Default Below BBB-), the Facility Fee Rate then in effect shall be increased by 1.5% per annum over the Facility Fee Rate otherwise in effect. In addition, if one or more rating agencies shall suspend its Rating for credit related reasons or withdraw its applicable Rating, the Facility Fee Rate then in effect shall immediately increase to the lowest level ("Level 8") which is reflective of the "Below BBB-" rating level.

EXHIBIT 2

Mitsubishi UFJ Securities (USA), Inc.

(“MUS”)

As an affiliate of Union Bank, Mitsubishi UFJ Securities ("MUS") would appreciate the opportunity to be considered as remarketing agent for the District on the Bonds/COPs.

The MUS Municipal Remarketing Desk coordinates and manages the sales, trading and placement efforts of variable rate and short-term securities for our municipal clients. With a sales and trading team of over 30 professionals across the nation, MUS covers all the major money market funds which purchase the Utilities' Bonds.

Based in San Francisco and headed by Mr. David Kelp, whose 12 years of experience includes the day-to-day responsibility for a $40 billion remarketing book while employed by his prior firm, the MUS Remarketing team understands that is has the responsibility to deliver to the City the lowest interest rates available.

MUS is highly capitalized, with Net Excess Capital of over $244.9 million as of December 31, 2011 and access to the capital of our parent, MUFG, which has $2.8 trillion in assets as of March 31, 2012. Its strong capital position and capital commitment procedures mean that MUS is well positioned to support the City's Bonds and COPs by holding the Bonds in its inventory as necessary in order to find the best price.

MUS charges highly competitive fees for its services and the City can negotiate such fees directly with MUS.