

# THE REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE

## MEMORANDUM

TO: REDEVELOPMENT AGENCY BOARD	FROM: HARRY S. MAVROGENES EXECUTIVE DIRECTOR
SUBJECT: SEE BELOW	DATE: AUGUST 20, 2009

## INFORMATION

**SUBJECT: MERGED AREA REDEVELOPMENT PROJECT REVENUE BONDS, 2003 SERIES A & B – JP MORGAN LETTERS OF CREDIT EXTENSION**

On July 29, 2009, the Redevelopment Agency obtained a three-month extension of the Letters of Credit collateralizing the Agency's Merged Area Redevelopment Project Revenue Bonds, 2003 Series A & B. If the Letters of Credit were not extended or new letters of credit not provided by August 3, 2009, a mandatory call of the captioned Bonds amounting to \$56 million would have been required on August 27, 2009.

In 2006, JP Morgan provided a three-year extension of the Letters of Credit. However, since that time and, in particular, during the past 18 months, the market for bank letters of credit has sharply contracted, in particular for redevelopment agencies, reflecting the impact of the State's budget crisis.

After extensive discussions, JP Morgan agreed to a three-month extension of the Letters of Credit, from August 27 through November 27, 2009, under the following terms:

- The fee for the Letters of Credit will increase from the current 60 basis points per annum to 150 basis points per annum. This translates to a monthly cost of approximately \$71,000, versus the current average rate of \$29,000 a month. Any downgrade in the Agency's rating by Standard and Poors or Moody's will result in a fee increase of 15 basis points for each notch downgrade by the respective rating agency.

- The definition of the base rate, which defines interest rates to be paid under various circumstances, including default, has been changed to include a floor of 8.5%.

These terms are incorporated in the Amendment to Reimbursement Agreement, dated July 29, 2009, between the Agency and JP Morgan. The Assistant Executive Director, under the authority granted to the Executive Director to execute contract amendments on an urgency basis during official Agency Board recesses, per Resolution No. 3588, signed the Amendment to the Reimbursement Agreement, with JP Morgan Chase Bank.

The Agency is in continuing discussions with JP Morgan and with other financial institutions to provide continuing Letters of Credit to support outstanding bonds.



HARRY S. MAVROGENES  
Executive Director