

THE REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE

MEMORANDUM

TO: REDEVELOPMENT AGENCY BOARD	FROM: HARRY S. MAVROGENES EXECUTIVE DIRECTOR
SUBJECT: SEE BELOW	DATE: APRIL 22, 2010

INFORMATION

SUBJECT: REDEVELOPMENT AGENCY HOUSING SET-ASIDE TAX ALLOCATION BONDS, SERIES 2010A, 2010B AND 2010C

On April 15, 2010, the Redevelopment Agency (the "Agency") sold its Housing Set-Aside Tax Allocation Bonds, Series 2010A and 2010B via negotiated sale to Stone & Youngberg LLC as senior manager and Bank of America Merrill Lynch as co-senior manager. The tax-exempt Series 2010A Bonds, in the amount of \$56,710,000 refunded the outstanding Housing Set-Aside Tax Allocation Bonds, Series 2005C&D. The taxable Series 2010B Bonds, in the amount of \$10,695,000, financed the costs of issuance and a deposit to the debt service reserve fund. The Series 2010A and B Bonds were rated A2/A/A by Moody's, S&P and Fitch, respectively.

The sale was very successful. With high tax allocation ratings, strong housing set-aside debt service coverage, a high degree of liquidity and favorable market conditions, we were able to achieve the best results by a tax allocation issuer since the financial meltdown in 2008.

A broad mix of retail and institutional investors were attracted and bonds were significantly over-subscribed in virtually every maturity (i.e., demand exceeded supply), including by more than six times in the 2035 term bond maturity. Whereas a strong tax allocation bond issuer might have attracted three institutional investors for its bonds if issued a year ago, we attracted 23 institutional investors.

The pricing process was one in which the underwriters proposed aggressive initial yields in pre-pricing calls on April 14 and 15, which reduced yields by 5 to 10 basis points at the commencement of the order period that morning and then shaved yields again following the actual receipt of orders.

The Agency's true interest cost was approximately 5.30% for the combined series. Senior lien coverage exceeded 2.0x in each year.

The table below shows the coupons and yields for each Series and their spread to the relevant pricing benchmarks (Municipal Market Data or MMD for tax-exempt Series 2010A Bonds and US Treasuries for the taxable Series 2010B Bonds):

	Series 2010A (Tax-Exempt)			Series 2010B (Taxable)		
	Coupon	Yield	Spread to MMD	Coupon	Yield	Spread to UST
2010				1.362%	1.362%	100bp
2011				1.762%	1.762%	135bp
2012				2.724%	2.724%	170bp
2013				3.447%	3.447%	182bp
2014				4.281%	4.281%	172bp
2015				4.881%	4.881%	232bp
2016	4.00%	3.80%	157bp			
2017	5.00%	4.15%	163bp			
2018	5.00%	4.35%	164bp			
2019	5.00%	4.55%	165bp			
2020	5.00%	4.70%	164bp			
2021	5.00%	4.82%	165bp			
2022	5.00%	4.95%	171bp			
2023	5.00%	5.02%	170bp			
2024	5.00%	5.10%	170bp			
2025	5.00%	5.15%	170bp			
2026	5.13%	5.28%	172bp			
2027	5.25%	5.36%	172bp			
2028	5.25%	5.42%	171bp			
2029	5.38%	5.46%	168bp			
2030	5.38%	5.50%	165bp			
2035	5.50%	5.57%	149bp			

Within the past several months, the most comparable redevelopment agency to have issued tax allocation bonds has been the San Francisco Redevelopment Agency, which issued tax-exempt and taxable bonds in December 2009 with

identical A2/A ratings. For maturities in common, the Agency's spreads were 20 to 60 basis points tighter to MMD than San Francisco's for tax-exempt bonds and more than 100 basis points tighter to U.S. Treasuries for taxable bonds.

The sale of the Series 2010A and 2010B represents the first step of a two step financing plan for the Housing Department. The second step will occur on April 28 when the Agency executes an agreement with Wells Fargo Bank relating to the purchase of \$93,000,000 in Series 2010C Bonds that will repay the Department's line of credit term loan with BNY Mellon and provide funds to enable a \$40 million loan to the Agency for its SERAF obligation.

Kudos go out to the Agency and City joint financing team, including the Housing Department, City Finance, and the City Attorney's Office for helping making this a success.



HARRY S. MAVROGENES
Executive Director