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CITY OF OAKLAND

MEMORANDUM

TO: HONORABLE MAYOR & CITY COUNCIL

FROM: Scott P. Johnson

SUBJECT: Questions on Goldman Sachs Swap

DATE: March 2, 2012

City Administrator Approval Deanna Santana — Date 3/2/12

INFORMATION

This informational report is being issued to share with the Mayor and City Council recent questions the City has received from the media regarding the interest rate SWAP agreement the City has with Goldman Sachs & Co. Below are the questions received and the related responses. Staff continues to evaluate the options regarding the SWAP and is in discussions with representatives from Goldman. As discussed during the February 23rd Rules & Legislative Committee, a full report and recommendations for action will be issued to facilitate a discussion on this topic during the April 24th Finance Committee.

1. Why did Oakland need to issue the bonds connected to the Goldman Sach rate swap? What specific city funds or programs needed the additional funds?

   In 1988 the City issued $209.84 million in Special Refunding Revenue Bonds to refund bonds previously issued by the City/Redevelopment Agency (the 1985 Certificates of Participation (COPs) to purchase a New York Life Annuity. The annual proceeds from the Annuity were to pay debt service on the bonds and any residual was to be used to fund the City's required contributions to the Police and Fire Retirement System ("PFRS").

   The 1988 Bonds had been issued with interest rates that ranged from 6.50% to 7.60%. The structure of the Bonds prevented the City from refinancing or restructuring the Bonds until 1998. As a result, in January 1997, to mitigate the impact on 1988 bond's high fixed interest rates, the City entered into a forward-starting synthetic fixed rate swap agreement ("1998 Swap") with Goldman Sachs ("Goldman") which resulted in realizing debt service savings on the Bonds.

2. Does the city have similar rate swap deals in place with other financial institutions? If so, who and for how much.

   The City has no other swap deals.

3. How much has the city paid since entering into the agreement in 1997 and how much will Oakland pay out at the end of the deal.

It should be noted that the debt payments related to PFRS are not funded by the City's general fund. The debt payments on the PFRS bonds, inclusive of payments related to the SWAP, are funded primarily from two sources: (1) from a parcel tax authorized by the voters through Measure O and R (tax override); and (2) from proceeds of an annuity purchased through the issuance of bonds in 1985, which were refinanced with the 1988 bonds.

To date the City has realized <u>net savings</u> of approximately $9.1 million[1] as follows:

- **In January 1997 the City transferred approximately $15 million in cash from debt savings from the 1988 Bonds as a result of entering into the SWAP.**
- **In April 2000 the City received $5.58 million as an incentive payment for changing the underlying variable rate index used to calculate the amount of variable rate interest the City received from Goldman.**
- **The City has benefited by approximately $3 million to-date in debt service savings due to the lower net interest rate the City paid on the SWAP compared to what would otherwise have been paid in debt service payments pursuant to the original debt payment schedule on the Bonds.**

Currently, the City is paying approximately $5 million annually to the Swap provider. Since the rate is based on Libor interest rate which fluctuates daily, we cannot predict the payment stream in the future.

4. What is the current status of the deal? As reported by council, the city has issued a letter requesting renegotiations on a termination fee?

It should be noted that staff had previously inquired of Goldman, most recently in June 2010, on the market value to terminate the SWAP investment instrument. Given the City's budget/fiscal condition, terminating the SWAP was cost prohibitive since the market value of the SWAP investment agreement was approximately $17 million at that time and the City did not have the resources to terminate the agreement by paying the market value of the SWAP investment security.

Recently the Assistant City Administrator and Finance/Treasury management staff has been in negotiations with Goldman Sachs to develop alternative solutions to mitigate the fiscal impact on the City to liquidate the investment and terminate the SWAP agreement. As a result, Goldman has expressed their commitment to working with the City in developing options to terminate the Swap.

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[1] This amount represents the nominal amount without factoring in inflation. Staff is in the process of computing the net present value savings after factoring in inflation, which would result in a higher net savings to the City.

5. What is the timeline for a resolution on adjusting the deal?

   Currently, we do not have a timeline; however, we are hopeful to have this issue resolved by July 2012.

Respectfully submitted,

/s/

Scott P. Johnson
Assistant City Administrator

For questions please contact Scott P. Johnson, Assistant City Administrator, at (510) 238-6906.