

**SUBMITTAL TO THE BOARD OF SUPERVISORS,
COUNTY OF RIVERSIDE, STATE OF CALIFORNIA**



527

FROM: COUNTY EXECUTIVE OFFICE

SUBMITTAL DATE:
October 17, 2011

SUBJECT: Series 2008 Leasehold Revenue Refunding Bonds (Southwest Justice Center Refunding) Interest Rate Swap Novation.

RECOMMENDED MOTION: That the Board of Supervisors approve Resolution No. 2011-269, authorizing and approving an interest rate swap novation and the execution and delivery of a supplemental indenture of trust in connection therewith relating to the County of Riverside Asset Leasing Corporation Variable Rate Demand Leasehold Revenue Refunding Bonds, Series 2008A (Southwest Justice Center Refunding) and approving other matters related thereto.

BACKGROUND: In May 2000 the Series 2000B (Southwest Justice Center Project) Lease Revenue Bonds were issued to fund the Southwest Justice Center Project (SWJC) and refunded in November 2008.

In connection with the issuance of the 2008 refunding bonds, the Corporation entered into an Amended and Restated ISDA Master Agreement, dated as of December 10, 2008, with Citigroup Financial Products Inc. ("Citigroup"). The Corporation made payments to Citigroup based on a fixed interest rate and Citigroup made payments to the Corporation based on a floating interest rate (the "Citigroup Swap") to hedge the Corporation's interest rate risk with respect to the Bonds.

Citigroup now desires to transfer its rights and obligations under the Citigroup Swap to Wells Fargo Bank, N.A. ("Wells Fargo") pursuant to a Novation Confirmation.

Stephanie Persi

(Continued on page 2)

Stephanie Persi, Associate Management Analyst

FINANCIAL DATA	Current F.Y. Total Cost:	\$ N/A	In Current Year Budget:	N/A
	Current F.Y. Net County Cost:	\$ N/A	Budget Adjustment:	N/A
	Annual Net County Cost:	\$ N/A	For Fiscal Year:	2011/12

SOURCE OF FUNDS: Lease Revenue	Positions To Be Deleted Per A-30	<input type="checkbox"/>
	Requires 4/5 Vote	<input type="checkbox"/>

C.E.O. RECOMMENDATION: APPROVE
BY: *Christopher M. Hans*
County Executive Office Signature Christopher M. Hans

FORM APPROVED COUNTY COUNSEL
BY: *Dale A. Gardner* 10/17/11
DALE A. GARDNER
DATE: 10/17/11
Departmental Concurrence

Consent
 Policy
 Consent
 Policy

Dept's Recomm.:
 Per Exec. Ofc.:

The County and the Corporation propose to enter into a First Supplemental Indenture of Trust, dated as of October 1, 2011, by and among the County, the Corporation and the Trustee, which amends the Indenture to clarify the continuation of the rights of the Insurer and the Swap Counterparty in connection with the Swap Transaction.

Some provisions of the Wells Fargo Swap are inconsistent with County's Debt Management Policy (the "Debt Policy"); for example, the Debt Policy with respect to interest rate swaps provides that (i) the County may only enter into swap agreements with counterparties rated AAA by at least one rating agency, (ii) the County will not provide collateral to secure its obligations under swap agreements, and (iii) if the credit rating of the counterparty falls below AAA by any rating agency, the counterparty shall post collateral equaling at least 102% of the swap amount (collectively, the "Debt Policy Swap Provisions").

At the time the Debt Policy, with respect to interest rate swaps, was adopted there were many financial institutions with credit ratings of AAA, but today there are very few, if any, financial institutions with credit ratings of AAA. Wells Fargo's rating is AA from Standard & Poor's and Aa3 from Moody's. It was also customary to require swap counterparties to post collateral if their credit rating fell below AAA, but today it is market practice to require collateral only if the swap counterparty's credit rating falls to a much lower level. In the Wells Fargo Swap, Wells Fargo must post collateral if its credit rating falls to BBB- from Standard & Poor's or Baa3 from Moody's in amounts ranging from 100% to 105% (depending on the form and maturity of the collateral) of the amount by which the mark to market value of the swap favors the County. Under the Wells Fargo Swap the County is not obligated to post collateral under any circumstances, but the County has the option of posting collateral if it wishes to avoid a termination of the Wells Fargo Swap if the Insurer defaults, becomes insolvent or fails to maintain a credit rating of at least A- from Standard & Poor's or A3 from Moody's, or if the swap insurance policy is held to be invalid.

It is in the best interest of the County and the Corporation to approve the Swap Transaction as such would reduce the amount and duration of the interest rate risk with respect to the Bonds.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

RESOLUTION NO. 2011-269

RESOLUTION OF THE BOARD OF SUPERVISORS OF THE COUNTY OF RIVERSIDE AUTHORIZING AND APPROVING AN INTEREST RATE SWAP NOVATION AND THE EXECUTION AND DELIVERY OF A SUPPLEMENTAL INDENTURE OF TRUST IN CONNECTION THEREWITH RELATING TO THE COUNTY OF RIVERSIDE ASSET LEASING CORPORATION VARIABLE RATE DEMAND LEASEHOLD REVENUE REFUNDING BONDS, SERIES 2008A (SOUTHWEST JUSTICE CENTER REFUNDING) AND APPROVING OTHER MATTERS RELATED THERETO

WHEREAS, the County of Riverside Asset Leasing Corporation (the "Corporation") previously issued its \$78,895,000 County of Riverside Asset Leasing Corporation Variable Rate Demand Leasehold Revenue Refunding Bonds, Series 2008A (Southwest Justice Center Refunding) (the "Bonds") for the benefit of the County of Riverside (the "County") pursuant to an Indenture of Trust, dated as of December 1, 2008 (the "Indenture"), by and among the Corporation, the County and U.S. Bank National Association, as Trustee (the "Trustee");

WHEREAS, in connection with the issuance of the Bonds, the Corporation entered into an Amended and Restated ISDA Master Agreement, dated as of December 10, 2008, with Citigroup Financial Products Inc. ("Citigroup") pursuant to which the Corporation made payments to Citigroup based on a fixed interest rate and Citigroup made payments to the Corporation based on a floating interest rate (the "Citigroup Swap") to hedge the Corporation's interest rate risk with respect to the Bonds;

WHEREAS, the Corporation's payment obligations under the Citigroup Swap are insured by Assured Guaranty Corp. (the "Insurer");

WHEREAS, Citigroup desires to transfer its rights and obligations under the Citigroup Swap to Wells Fargo Bank, N.A. ("Wells Fargo") pursuant to a Novation Confirmation, by and among Citigroup, Wells Fargo and the Corporation (the "Novation"), to substitute Wells Fargo in place of Citigroup as the new swap counterparty (thereafter, the "Wells Fargo Swap," and together with the Novation, the "Swap Transaction"). Citigroup and Wells Fargo are jointly referred to herein as the "Swap Counterparty";

FORM APPROVED COUNTY COUNSEL
BY: *Shirley G. Gardner* 10/17/11
DALE A. GARDNER DATE

1 WHEREAS, the Indenture provides certain rights to the Swap Counterparty and the Insurer
2 and in order to assure such rights continue with respect to the Wells Fargo Swap, it is necessary to
3 amend certain definitions in the Indenture;

4 WHEREAS, Section 1501 of the Indenture provides that the Indenture may be amended by a
5 Supplemental Indenture without the consent of the owners of the Bonds to (i) cure any ambiguity,
6 supply any omission, or cure or correct any defect or inconsistent provision in the Indenture and/or
7 (ii) insert such provisions clarifying matters or questions arising under the Indenture as are necessary
8 or desirable and are not contrary to or inconsistent with the Indenture;

9 WHEREAS, the County and the Corporation propose to enter into a First Supplemental
10 Indenture of Trust, dated as of October 1, 2011 (the "Supplemental Indenture"), by and among the
11 County, the Corporation and the Trustee, which amends the Indenture to clarify the continuation of
12 the rights of the Insurer and the Swap Counterparty in connection with the Swap Transaction;

13 WHEREAS, some provisions of the Wells Fargo Swap are inconsistent with County's Debt
14 Management Policy (the "Debt Policy"); for example, the Debt Policy with respect to interest rate
15 swaps provides that (i) the County may only enter into swap agreements with counterparties rated
16 AAA by at least one rating agency, (ii) the County will not provide collateral to secure its obligations
17 under swap agreements, and (iii) if the credit rating of the counterparty falls below AAA by any
18 rating agency, the counterparty shall post collateral equaling at least 102% of the swap amount
(collectively, the "Debt Policy Swap Provisions");

19 WHEREAS, at the time the Debt Policy with respect to interest rate swaps was adopted
20 there were many financial institutions with credit ratings of AAA, but today there are very few, if any,
21 financial institutions with credit ratings of AAA; Wells Fargo's rating is AA from Standard & Poor's
22 and Aa3 from Moody's;

23 WHEREAS, at the time the Debt Policy with respect to interest rate swaps was adopted it
24 was customary to require swap counterparties to post collateral if their credit rating fell below AAA,
25 but today it is market practice to require collateral only if the swap counterparty's credit rating falls to
26 a much lower level; in the Wells Fargo Swap, Wells Fargo must post collateral if its credit rating falls
27 to BBB- from Standard & Poor's or Baa3 from Moody's in amounts ranging from 100% to 105%

1 (depending on the form and maturity of the collateral) of the amount by which the mark to market
2 value of the swap favors the County;

3 WHEREAS, under the Wells Fargo Swap the County is not obligated to post collateral
4 under any circumstances, but the County has the option of posting collateral if it wishes to avoid a
5 termination of the Wells Fargo Swap if the Insurer defaults, becomes insolvent or fails to maintain a
6 credit rating of at least A- from Standard & Poor's or A3 from Moody's, or if the swap insurance
7 policy is held to be invalid;

8 WHEREAS, under current economic and market conditions, it is not feasible to comply with
9 the Debt Policy Swap Provisions in connection with any swap agreements;

10 WHEREAS, the County deems it in its and the Corporation's best interest to effectuate the
11 Swap Transaction as such would reduce the amount and duration of the interest rate risk to the
12 Corporation and the County with respect to the Bonds; and

13 WHEREAS, the County is authorized to undertake all of the above pursuant to the laws of
14 the State of California.

15 NOW, THEREFORE, the Board of Supervisors of the County of Riverside (the "Board")
16 does hereby resolve, determine and order as follows:

17
18 Section 1. The Board hereby finds that the above foregoing recitals are true and correct.

19 Section 2. The Board hereby approves of and consents to the Swap Transaction. The Board
20 acknowledges that certain terms of the Wells Fargo Swap deviate from the Debt Policy for interest
21 rate swaps and hereby grants an exception to such policy to the extent of such discrepancies.

22 Section 3. The proposed form of the Novation, in substantially the form on file with the
23 Clerk of the Board, is hereby approved. The appropriate officers of the Corporation are hereby
24 authorized and requested to execute and deliver the Novation in substantially the form on file with the
25 Clerk of the Board, with such changes therein as such Corporation officer executing and delivering
26 such documents may require or approve, such requirement or approval to be conclusively evidenced
27 by the execution and delivery thereof.
28

1 Section 4. The proposed forms of ISDA Master Agreement (which includes the Schedule
2 and Credit Support Annex thereto) and the Confirmation, each by and between the Corporation and
3 Wells Fargo (collectively, the “Wells Fargo Swap Documents”), in substantially the forms on file
4 with the Clerk of the Board, are hereby approved. The appropriate officers of the Corporation are
5 hereby authorized and requested to execute and deliver the Wells Fargo Swap Documents in
6 substantially the forms on file with the Clerk of the Board, with such changes therein as such
7 Corporation Officer executing and delivering such documents may require or approve, such
8 requirement or approval to be conclusively evidenced by the execution and delivery thereof.

9 Section 5. The proposed form of the Supplemental Indenture, in substantially the form on
10 file with the Clerk of the Board, is hereby approved. The County Executive Officer, the County
11 Finance Director, the County Deputy Executive Officer and any other authorized officers of the
12 County acting on behalf of the County Executive Officer (each an “Authorized Representative” and
13 collectively, the “Authorized Representatives”) are, and each of them acting alone is, hereby
14 authorized and directed, for and in the name of and on behalf of the County, to execute and deliver
15 the Supplemental Indenture in substantially the form on file with the Clerk of the Board, with such
16 changes therein as such Authorized Representative executing and delivering such document may
17 require or approve, such requirement or approval to be conclusively evidenced by the execution and
18 delivery thereof.

19 Section 6. All actions heretofore taken by any officer of the County with respect to the
20 Swap Transaction or the exemption from the Debt Policy Swap Provisions, or in connection with or
21 related to any of the agreements referred to herein, are hereby approved, confirmed and ratified.

22 Section 7. The Authorized Representatives are, and each of them acting alone is, authorized
23 and directed to take any and all such actions, and to execute any and all such documents as may be
24 necessary or desirable to effectuate the purposes of this Resolution.

25 Section 8. The Clerk of the Board shall certify to the passage of this Resolution, shall
26 transmit a copy hereof to the Corporation, and shall cause the action of the Board of Supervisors in
27 adopting the same to be entered in the official minutes of this Board of Supervisors.
28

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

PASSED and ADOPTED by the Board of Supervisors of the County of Riverside on the
____ day of _____, 2011.

Chairman of the Board of Supervisors

(SEAL)

ATTEST:

Clerk of the Board of Supervisors

1 **CERTIFICATE OF CLERK**

2 I, Kacia Harper-Ihem Clerk of the Board of Supervisors of the County of Riverside, do
3 hereby certify that the foregoing is a full, true and correct copy of a resolution duly adopted at a
4 regular meeting of the Board of Supervisors of the County of Riverside duly and regularly held at the
5 regular meeting place thereof on _____, 2011, of which meeting all of the members of said
6 Board had due notice.

7 AYES: Supervisors _____

8 NAYS: Supervisors _____

9 ABSENT: Supervisors _____

10 I do hereby further certify that I have carefully compared the foregoing copy with the
11 original minutes of said meeting on file and of record in my office; that said copy is a full, true and
12 correct copy of the original resolution adopted at said meeting and entered in said minutes; and that
13 said resolution has not been amended, modified, rescinded or revoked in any manner since the date of
14 its adoption, and the same is now in full force and effect.

15 I do hereby further certify that an agenda for said meeting was posted at least seventy-two
16 (72) hours before said meeting at 4080 Lemon Street, Riverside, California, a location freely
17 accessible to members of the public, and a brief general description of said resolution appeared on
18 said agenda.

19 WITNESS my hand and the seal of the County of Riverside this _____ day of _____,
20 2011.

21 _____
22 Clerk of the Board of Supervisors

23 [SEAL]
24
25
26
27
28