



The City of Richmond

Review of Pension Obligation Bonds and Swaps

April 6, 2021



Overview of Presentation Topics

- ❑ Background and context for the issuance of the Series 2005AB Pension Obligation Bonds (“POBs”)
- ❑ Response to Councilmember Martinez’s questions regarding the interest rate swaps associated with the POBs
- ❑ Response to Councilmember Jimenez’s question regarding the cost of other alternatives to the POB swaps
- ❑ Update on alternatives to address upcoming mandatory termination date for the POB swap in 2023

2005AB Pension Obligation Bonds – Background

- ❑ Prior to the issuance of the 2005AB POBs, the City:
 - Had not published audited financial statements since FY 2002-03
 - Had its ratings downgraded by Moody's and S&P to Ba3 and BB, respectively, and had the S&P rating suspended
 - Did not have access to the public capital markets
 - Was looking for near-term budgetary savings

Council-Approved 2005AB POBs Provided Desired Relief

- ❑ Given the City's market access challenges in 2005, Lehman Brothers agreed to directly purchase the 2005AB POBs
 - Funded approximately \$114 million deposit to CalPERS
 - Structured POBs with convertible capital appreciation bonds (CABs) to permit deferral of interest to 2013 and 2023 conversion dates
 - POBs scheduled to convert to auction rate bonds in 2013 (2005B-1) and 2023 (2005B-2)

- ❑ Expected net present value 'savings' at issuance of approximately \$16.9 million

- ❑ Initial structure provided an *estimated \$25.7 million of budgetary savings through FY 2013*, positive but lower savings through 2020, and dissavings 2021 to 2034

What Other Financing Alternatives Were Available to the City?

- ❑ At the initial issuance of the 2005 Pension Obligation Bonds:
 - Long-term fixed rate CABs were not available
 - Variable rate bonds – not available in the public market (no access to bank letters of credit to support bonds)
 - Do not issue POBs – would have erased \$25.7 million of estimated budgetary savings through 2013

- ❑ At the time the POB swaps were put in place in 2007:
 - Do nothing and allow POBs to convert to naked variable rate in the future – not advisable due to factors described on the following page

- ❑ At the first conversion of the 2005B-1 POBs to variable rates in 2013:
 - Refinancing 2005B-1 Bonds with variable rates not an option – bank credit facilities unavailable
 - Refinancing to fixed rates was not economic

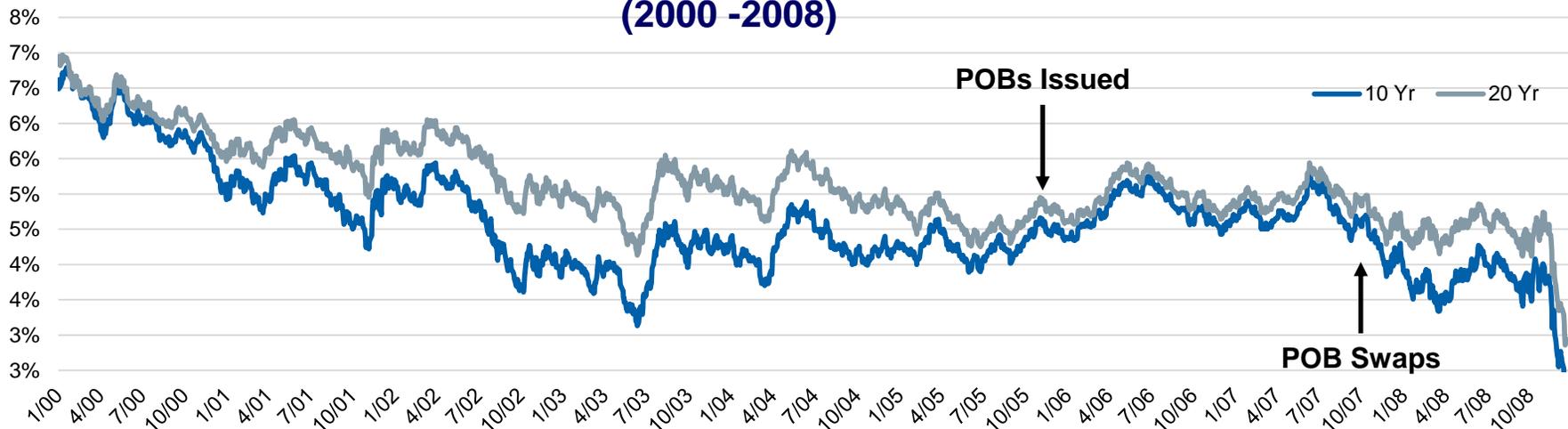
Variable Rate Bonds for Municipalities

- ❑ Variable rate bonds have historically provided a low cost of funds for municipal borrowers
- ❑ HOWEVER ... variable rate bonds expose issuers to a number of risks
- ❑ Issuers that can raise revenues AND have significant unrestricted cash balances are more likely to have variable rate debt in their portfolios than cities with limited available cash
- ❑ Most variable rate products require a bank credit facility, and the City historically has had great difficulty finding willing bank partners due to the history of volatile credit ratings
- ❑ Rating agencies consider variable rate debt of up to 20% of an issuer's portfolio to be reasonably prudent
 - POBs were approximately 66% of the City's outstanding General Fund-supported debt at issuance
 - As of FY 2004-05, City's unrestricted cash was \$26.5 million - 23% of the POB original principal amount

The 2005B Pension Obligation Swaps

- ❑ In 2007, the City was approached by Bear Stearns to convert the future variable rate liability on the POBs to synthetic fixed rate with two forward-starting swaps
- ❑ Interest rates had risen in mid-2007, but had begun to decline in the Fall when the swaps were entered into
- ❑ City desired a fixed rate on the POBs to address future interest rate risk and to ensure more budgetary certainty
- ❑ The swap was approved by City Council and the swaps were executed in November 2007

**10-Year and 20-Year U.S. Treasury Rates
(2000 -2008)**



Pension Obligation Bond and Swap Participants and Fees

- ❑ The 2005 POBs had total issuance costs of approximately \$1.1 million
 - All 'savings' figures are quoted net of these expenses

2005 POB Issuance Fees

Role	Firm	Amount
Underwriter Fees and Expenses	RBC	\$ 707,220.06
Bond Counsel	Orrick	183,992.21
Bound Counsel Validation	Orrick	20,000.00
Bond Counsel Expenses	Orrick	3,000.00
Financial Advisor	Tamalpais Advisors	76,500.00
Actuarial Costs	Bartel & Associates	20,000.00
Actuarial Costs	Oliver	10,000.00
Trustee	Union Bank	5,000.00
Contingency	N/A	10,000.00
City Auditor		80,000.00
TOTAL		\$ 1,115,712.27

- ❑ Fees related to the 2007 POB swaps were approximately \$700,000
- ❑ Note that Bear Stearns' spread on the transaction does not reflect profit – approximately 40% of the spread represents expenses

2007 POB Swap Fees

Role	Firm	Approximate Amount
Swap Counterparty Fees*	Bear Stearns	603,000.00
Bond Counsel Fees & Expenses	Orrick	35,000.00
Swap Advisor	BondLogistix	60,000.00
TOTAL		\$ 698,000.00

*Fees embedded in the swap rate; not paid out of City funds.

Detailed Analysis of 2005B-1 POB Costs

2005B-1 debt service payments estimated to total ~\$107.7 million, with effective rate of 6.63%

Swap portion of this totals \$21.8 million

Period Ending	Original Par	Accretion	CAB Value at Full Accretion Date	Sinking Fund Deposit (Adjusted)	Outstanding Principal/Notional	1.40% Spread Component	Applicable LIBOR Reset	LIBOR Component of Bond Interest	Interest Rate Swap			Total Debt Service	Total Debt Service (Annual)	
									Fixed Leg Rate	Fixed Leg Payment (30/360)	Floating Leg Swap Receipts (Act/360)			Net Swap Payments
8/1/2013														
11/1/2013					75,230,476	269,158	0.2650	50,948	5.712	1,074,291	(50,948)	1,023,343	1,343,449	
2/1/2014					75,230,476	269,158	0.2419	46,507	5.712	1,074,291	(46,507)	1,027,785	1,343,449	
5/1/2014					75,230,476	260,381	0.2376	44,190	5.712	1,074,291	(44,190)	1,030,101	1,334,672	
8/1/2014	2,795,760	1,673,377	4,469,137	4,468,000	75,230,476	269,158	0.2254	43,325	5.712	1,074,291	(43,325)	1,030,966	5,811,449	9,833,020
11/1/2014					70,762,476	253,172	0.2396	43,329	5.712	1,010,472	(43,329)	967,143	1,263,644	
2/1/2015					70,762,476	253,172	0.2324	42,018	5.712	1,010,472	(42,018)	968,454	1,263,644	
5/1/2015					70,762,476	244,917	0.2546	44,540	5.580	987,032	(44,540)	942,492	1,231,949	
8/1/2015	2,935,548	1,757,046	4,692,594	4,692,000	70,762,476	253,172	0.2782	50,300	5.580	987,032	(50,300)	936,732	5,932,205	9,691,442
11/1/2015					66,070,476	236,385	0.3001	50,671	5.580	921,576	(50,671)	870,905	1,157,962	
2/1/2016					66,070,476	236,385	0.3289	55,534	5.580	921,576	(55,534)	866,043	1,157,962	
5/1/2016					66,070,476	231,247	0.6156	101,682	5.580	921,576	(101,682)	819,894	1,152,823	
8/1/2016	3,541,296	2,119,611	5,660,907	5,660,000	66,070,476	236,385	0.6366	107,488	5.580	921,576	(107,488)	814,089	6,817,962	10,286,709
11/1/2016					60,410,476	216,135	0.7565	116,790	5.580	842,614	(116,790)	725,824	1,058,749	
2/1/2017					60,410,476	216,135	0.8859	136,773	5.580	842,614	(136,773)	705,840	1,058,749	
5/1/2017					60,410,476	209,087	1.0340	154,426	5.580	842,614	(154,426)	688,188	1,051,701	
8/1/2017	4,162,576	2,491,473	6,654,049	6,653,000	60,410,476	216,135	1.1696	180,559	5.580	842,614	(180,559)	662,054	7,711,749	10,880,948
11/1/2017					53,757,476	192,332	1.3106	180,045	5.580	749,798	(180,045)	569,753	942,130	
2/1/2018					53,757,476	192,332	1.3768	189,142	5.580	749,798	(189,142)	560,656	942,130	
5/1/2018					53,757,476	186,061	1.7734	235,686	5.580	749,798	(235,686)	514,113	935,859	
8/1/2018	4,830,452	2,891,224	7,721,676	7,720,000	53,757,476	192,332	2.3581	323,949	5.580	749,798	(323,949)	425,849	8,662,130	11,482,250
11/1/2018					46,037,476	164,712	2.3431	275,672	5.580	642,090	(275,672)	366,418	806,802	
2/1/2019					46,037,476	164,712	2.5410	298,952	5.580	642,090	(298,952)	343,138	806,802	
5/1/2019					46,037,476	159,341	2.7363	311,426	5.580	642,090	(311,426)	330,664	801,431	
8/1/2019	5,234,284	3,132,934	8,367,218	8,366,000	46,037,476	164,712	2.5790	303,423	5.580	642,090	(303,423)	338,668	9,172,802	11,587,838
11/1/2019					37,671,476	134,780	2.2531	216,912	5.580	525,378	(216,912)	308,466	660,158	
2/1/2020					37,671,476	134,780	1.9091	183,795	5.580	525,378	(183,795)	341,583	660,158	
5/1/2020					37,671,476	131,850	1.7633	166,061	5.580	525,378	(166,061)	359,318	657,228	
8/1/2020	5,917,692	3,541,982	9,459,674	9,458,000	37,671,476	134,780	0.6866	66,103	5.580	525,378	(66,103)	459,275	10,118,158	12,095,703
11/1/2020					28,213,476	100,942	0.2510	18,097	5.580	393,428	(18,097)	375,330	494,369	
2/1/2021					28,213,476	100,942	0.2144	15,457	5.580	393,428	(15,457)	377,971	494,369	
5/1/2021					28,213,476	97,650	0.2050	14,299	5.580	393,428	(14,299)	379,129	491,078	
8/1/2021	6,445,780	3,858,064	10,303,844	10,302,000	28,213,476	100,942	0.1687	12,165	5.580	393,428	(12,165)	381,263	10,796,369	12,276,185
11/1/2021					17,911,476	64,083	0.1613	7,383	5.580	249,702	(7,383)	242,319	313,785	
2/1/2022					17,911,476	64,083	0.2130	9,752	5.580	249,702	(9,752)	239,950	313,785	
5/1/2022					17,911,476	61,994	0.2210	9,784	5.580	249,702	(9,784)	239,918	311,695	
8/1/2022	7,253,444	4,341,484	11,594,928	11,593,000	17,911,476	64,083	0.2181	9,985	5.580	249,702	(9,985)	239,717	11,906,785	12,846,051
11/1/2022					6,318,476	22,606	0.2849	4,601	5.580	87,967	(4,601)	83,366	110,573	
2/1/2023					6,318,476	22,606	0.3751	6,057	5.580	87,967	(6,057)	81,910	110,573	
5/1/2023					6,318,476	21,869	0.4940	7,717	5.580	87,967	(7,717)	80,250	109,836	
8/1/2023	3,945,128	2,361,321	6,306,449	6,318,476	6,318,476	22,606	0.6305	10,180	5.580	87,967	(10,180)	77,787	6,429,049	6,760,031
Total	47,061,960	28,168,516	75,230,476	75,230,476				6,567,315	4,145,721	25,942,387	-4,145,721	21,796,666	107,740,178	107,740,178

IRR = 6.526%

Currently Projected

Detailed Analysis of 2005B-2 POB Costs

2005B-1 debt service payments estimated to total ~\$192.9 million, with effective rate of 6.64%

Swap portion of this totals \$34.0 million

Period Ending	Original Par	Accretion	CAB Value at Full Accretion Date	Sinking Fund Deposit (Adjusted)	Outstanding Principal / Notional	1.40% Spread Component	Projected LIBOR Resets	LIBOR Component of Bond Interest	Interest Rate Swap			Total Debt Service	Total Debt (Annual)	
									Fixed Leg Payment (30/360)	Floating Leg Swap Receipts (Act/360)	Net Swap Payments			
8/1/2023														
11/1/2023					127,990,254	457,921	0.78	254,895		1,833,460	(254,895)	1,578,565	2,291,381	
2/1/2024					127,990,254	457,921	0.94	306,581		1,833,460	(306,581)	1,526,879	2,291,381	
5/1/2024					127,990,254	447,966	1.10	352,517		1,833,460	(352,517)	1,480,943	2,281,426	
8/1/2024	2,092,034	4,375,101	6,467,135	6,466,000	127,990,254	457,921	1.26	411,576	5.730%	1,833,460	(411,576)	1,421,885	8,757,381	15,621,570
11/1/2024					121,524,254	434,787	1.40	433,253		1,740,819	(433,253)	1,307,566	2,175,605	
2/1/2025					121,524,254	434,787	1.51	469,200		1,740,819	(469,200)	1,271,619	2,175,605	
5/1/2025					121,524,254	420,609	1.60	481,087		1,740,819	(481,087)	1,259,732	2,161,428	
8/1/2025	2,163,624	4,524,820	6,688,444	6,687,000	121,524,254	434,787	1.68	522,446	5.730%	1,740,819	(522,446)	1,218,373	8,862,605	15,375,244
11/1/2025					114,837,254	410,862	1.76	517,331		1,645,007	(517,331)	1,127,675	2,055,869	
2/1/2026					114,837,254	410,862	1.84	539,858		1,645,007	(539,858)	1,105,148	2,055,869	
5/1/2026					114,837,254	397,464	1.91	542,942		1,645,007	(542,942)	1,102,065	2,042,471	
8/1/2026	2,640,894	5,522,942	8,163,836	8,162,000	114,837,254	410,862	1.98	581,335	5.730%	1,645,007	(581,335)	1,063,672	10,217,869	16,372,078
11/1/2026					106,675,254	381,660	2.04	556,164		1,528,060	(556,164)	971,896	1,909,720	
2/1/2027					106,675,254	381,660	2.09	569,841		1,528,060	(569,841)	958,219	1,909,720	
5/1/2027					106,675,254	369,215	2.13	562,204		1,528,060	(562,204)	965,856	1,897,275	
8/1/2027	2,776,121	5,805,743	8,581,863	8,580,000	106,675,254	381,660	2.17	590,358	5.730%	1,528,060	(590,358)	937,702	10,489,720	16,206,435
11/1/2027					98,095,254	350,963	2.19	550,205		1,405,125	(550,205)	854,920	1,756,088	
2/1/2028					98,095,254	350,963	2.22	556,281		1,405,125	(556,281)	848,843	1,756,088	
5/1/2028					98,095,254	343,333	2.24	548,848		1,405,125	(548,848)	856,277	1,748,458	
8/1/2028	3,261,345	6,820,500	10,081,845	10,080,000	98,095,254	350,963	2.25	565,146	5.730%	1,405,125	(565,146)	839,979	11,836,088	17,096,721
11/1/2028					88,015,254	314,899	2.27	510,696		1,260,702	(510,696)	750,006	1,575,601	
2/1/2029					88,015,254	314,899	2.29	514,235		1,260,702	(514,235)	746,468	1,575,601	
5/1/2029					88,015,254	304,631	2.30	500,693		1,260,702	(500,693)	760,009	1,565,333	
8/1/2029	3,468,162	7,253,020	10,721,182	10,719,000	88,015,254	314,899	2.32	520,724	5.730%	1,260,702	(520,724)	739,978	12,294,601	17,011,136
11/1/2029					77,296,254	276,549	2.33	459,683		1,107,121	(459,683)	647,438	1,383,670	
2/1/2030					77,296,254	276,549	2.34	461,655		1,107,121	(461,655)	645,466	1,383,670	
5/1/2030					77,296,254	267,531	2.34	448,065		1,107,121	(448,065)	659,057	1,374,652	
8/1/2030	3,173,846	6,637,511	9,811,357	9,810,000	77,296,254	276,549	2.35	464,594	5.730%	1,107,121	(464,594)	642,527	11,193,670	15,335,662
11/1/2030					67,486,254	241,451	2.36	406,852		966,574	(406,852)	559,722	1,208,024	
2/1/2031					67,486,254	241,451	2.37	408,109		966,574	(408,109)	558,465	1,208,024	
5/1/2031					67,486,254	233,577	2.37	395,884		966,574	(395,884)	570,690	1,200,151	
8/1/2031	4,836,336	10,114,303	14,950,639	14,948,000	67,486,254	241,451	2.38	410,494	5.730%	966,574	(410,494)	556,080	16,156,024	19,772,224
11/1/2031					52,538,254	187,970	2.39	320,615		752,406	(320,615)	431,790	940,376	
2/1/2032					52,538,254	187,970	2.40	321,652		752,406	(321,652)	430,754	940,376	
5/1/2032					52,538,254	183,884	2.40	315,708		752,406	(315,708)	436,698	936,290	
8/1/2032	5,377,242	11,245,508	16,622,750	16,620,000	52,538,254	187,970	2.41	323,462	5.730%	752,406	(323,462)	428,944	17,560,376	20,377,417
11/1/2032					35,918,254	128,508	2.41	221,239		514,285	(221,239)	293,046	642,792	
2/1/2033					35,918,254	128,508	2.41	220,931		514,285	(220,931)	293,354	642,792	
5/1/2033					35,918,254	124,317	2.40	213,037		514,285	(213,037)	301,248	638,602	
8/1/2033	5,997,693	12,543,066	18,540,759	18,538,000	35,918,254	128,508	2.39	219,363	5.730%	514,285	(219,363)	294,921	19,180,792	21,104,979
11/1/2033					17,380,254	62,183	2.38	105,722		248,688	(105,722)	142,967	310,871	
2/1/2034					17,380,254	62,183	2.37	105,304		248,688	(105,304)	143,385	310,871	
5/1/2034					17,380,254	60,155	2.36	101,469		248,688	(101,469)	147,219	308,843	
8/1/2034	5,615,877	11,744,569	17,360,446	17,380,254	17,380,254	62,183	2.35	104,500	5.730%	248,688	(104,500)	144,188	17,691,125	18,621,710
Total	41,403,173	86,587,081	127,990,254	127,990,254		12,895,939		17,986,750		52,008,984	(17,986,750)	34,022,233	192,895,176	192,895,176
						IRR = 6.644%								

Review of the 2014 Swaption History

- ❑ Swaption undertaken primarily to address FY 2013-14 budgetary shortfall
- ❑ Structured as “synthetic refunding” of 2009 Civic Center Bonds
 - City effectively sold its 2019 redemption rights for premium of \$9,386,000
 - Changes in termination payments and savings offset – City was indifferent
 - Exhaustive risk disclosures / informational sessions
 - No additional savings or costs expected
 - Terminated early in connection with POB swaps ATE remediation
 - Rates fell further – additional savings realized in 2019 refunding

Description	Gross Amount	Date	PV @ 3/2021
Swaption Premium Paid To City:	\$ 9,386,000	7/11/2014	\$ 11,458,441
Termination Payment:	(20,285,000)	2/3/2016	(23,639,134)
2019 Refunding PV Savings:	25,000,596	8/1/2019	26,255,268
	\$ 14,101,596		\$ 14,074,575
Benefit Over 2014 Expectations:	\$ 4,715,596		\$ 2,616,134

Addressing the Mandatory Termination of the 2005B-2 POB Swap

- ❑ Novation of POB swaps to RBC in 2016 required a mandatory termination of the 2005B-2 swap in 2023
 - Creates Risk: Ability to finance termination in 2023? Cost?
- ❑ Staff and consultants have been exploring available alternatives
 - Amending swap can be done NOW at known cost
 - Other "act NOW" alternatives are higher cost or retain greater risk
 - Waiting until 2023 could be less or more expensive
 - Retains risk of market access and financing costs in 2023
- ❑ Bond market cost improvements (~\$6.25M) relative to Oct/Nov 2020 conditions have increased number of reasonably viable alternatives.
 - Premature to recommend specific solution, but staff is evaluating the alternatives and will return with a specific recommendation in the near future

Options to Address Mandatory Termination of 2005B-2 Swap

Now or Later	Scenario	Benefits	Considerations
Address Now (weeks) – Amend Swap	<ul style="list-style-type: none"> Negotiate with RBC to amend swap and remove mandatory termination 	<ul style="list-style-type: none"> Available NOW - removes future funding and cost risks Swap remains – no termination, no bond issuance Lower cost than other “NOW” scenarios 	<ul style="list-style-type: none"> Swap rate (~55 bps) and potential termination payment (~\$4.5M) would increase Swap still subject to early termination if S&P rating falls below BBB
Address Now (months) – Terminate Swaps and Refund POBs	<ul style="list-style-type: none"> City issues new fixed rate taxable POBs to terminate the swaps and refund the POBs 	<ul style="list-style-type: none"> Eliminates future swap ATE risks and all incremental considerations of swaps and variable rate bonds 	<ul style="list-style-type: none"> Estimated additional cost relative to swap amendment is \$10.6M Gross and \$6.5M PV Additional cost due to negative arbitrage in defeasance escrow A successful tender offer (purchase bonds from holders) could substantially reduce costs
Address Now (months) – Issue bonds to pay down swap obligations now	<ul style="list-style-type: none"> City issues new taxable POBs to pay RBC now 	<ul style="list-style-type: none"> Reduces risks of (a) 2023 market access, (b) higher borrowing costs, and (c) related rating agency considerations Lower cost relative to a full fixed rate POB refunding 	<ul style="list-style-type: none"> Additional (smaller) termination payment still possible in 2023 City would decide in 2023 among then-available alternatives City retains exposure to its credit situation and market conditions
Address Later - Wait until 2023 to take action	<ul style="list-style-type: none"> City negotiates swap or issues bonds in 2023. 	<ul style="list-style-type: none"> Eliminates negative arbitrage cost of bond refunding scenarios 	<ul style="list-style-type: none"> Future interest rates and economics are unknown All current risks remain Potential credit rating impacts

Estimated Costs of Selected Alternatives as of March 9, 2021

Summary of Analysis - (ALL "NOW" SCENARIOS OTHER THAN SWAP AMENDMENT ASSUME REFUNDING OF B-1 BONDS and B-1 SWAP)

Year Ending	Amend Swap Alternative	Sell Fixed Rate Bonds NOW To Refund Both Series Completely, Terminate Swaps			Sell Bonds NOW To (1) Refund B-1s AND Buy-Down B-2 Swap Rate		Take No Action Now - Fixed Rate Refunding In 2023	
		Level Budgetary Impact / No Extension	Level Budgetary Impact AFTER 2023	Extend D/S to Eliminate Budgetary Impact	Keep Swap at Market Level, Budgetary Impact After 2023	Keep Swap at Market Level, Extend D/S	2023 Fixed Rate Refunding Assuming Current Market Conditions	2023 Fixed Rate Refunding 70 Bps Worse (Similar to Fall 2020 Market Conditions)
5/1/21								
8/1/21	-	921,598	105	(1,350)	(1,614)	(104)	-	-
8/1/22	-	921,042	1,259	673	(1,972)	(831)	-	-
8/1/23	-	923,068	1,733	2,311	315	2,016	-	-
8/1/24	703,946	918,833	1,234,576	1,801	611,310	(1,195)	382,009	1,105,208
8/1/25	668,383	923,684	1,235,479	719	609,897	(1,184)	381,840	1,103,086
8/1/26	631,605	920,032	1,237,056	615	609,537	2,463	377,073	1,105,823
8/1/27	586,714	923,776	1,234,994	2,326	607,751	2,267	378,665	1,105,444
8/1/28	539,524	920,468	1,235,389	114	608,433	1,324	380,624	1,108,037
8/1/29	484,084	919,172	1,237,030	(1,834)	607,438	688	380,700	1,103,065
8/1/30	425,129	922,597	1,237,850	(1,816)	609,011	(1,070)	381,888	1,103,877
8/1/31	371,174	922,218	1,234,452	1,861	607,555	640	379,339	1,106,022
8/1/32	288,960	918,936	1,232,727	23	610,087	(2,268)	379,676	1,103,168
8/1/33	197,550	922,536	1,237,293	(2,313)	610,813	(231)	377,856	1,104,364
8/1/34	95,591	923,593	1,233,703	831	612,145	(940)	378,992	1,107,324
8/1/35	-	-	-	9,152,283	-	4,511,739	-	-
8/1/36	-	-	-	9,165,945	-	4,515,652	-	-
	4,992,662	12,901,553	13,593,646	18,322,190	6,700,706	9,028,965	4,178,662	12,155,419
PV @ 3%:	4,079,236	10,642,940	10,699,223	11,849,963	5,272,810	5,839,605	3,289,190	9,566,513
Relative To Amending Swap:		6,563,705	6,619,987	7,770,727	1,193,574	1,760,370	(790,046)	5,487,277



APPENDIX

Glossary

- ❑ “ATE” means Additional Termination Event, which is an event spelled out in swap legal documents that permits the swap counterparty to compel the issuer to terminate its swap at the then-current market value. ATEs include credit rating downgrades below a level specified in the swap documents
- ❑ “Auction Rate Bonds” are variable rate bonds that are marketed through an auction process and are not supported by a bank liquidity facility; the auction rate bond market collapsed during the Financial Crisis.
- ❑ “CAB” means a Capital Appreciation Bond, which is a bond that does not pay current interest but instead is sold at a deep discount to par and interest accrues and is paid in full at the maturity of the bond..
- ❑ “Debt Service” means the sum of the principal and interest due on a series of bonds.
- ❑ “Escrow” means a portfolio of investments established to pay the debt service and redemption price of bonds that are being refunded until the redemption date.
- ❑ “Hedge” means a financial transaction that is designed to limit the investor’s exposure to risk.
- ❑ “Index Rate Bonds” are variable rate bonds whose rate is based on a standard variable rate market index such as LIBOR.
- ❑ “Mandatory Termination” means a requirement to terminate an interest rate swap agreement at the then-current market value.
- ❑ “Negative Arbitrage” means invested bond funds (typically an Escrow) are earning less interest than the interest rate on the bonds that are the source of the invested funds.
- ❑ “POBs” means Pension Obligation Bonds, which are bonds sold to make a deposit to a pension system to fund all or a portion of an unfunded liability.
- ❑ “Refunding” means a refinancing of outstanding debt, typically for economic savings.
- ❑ “Swap” means an interest rate exchange agreement, whereby two parties agree to exchange interest payments.
- ❑ “Variable Rate Bonds” means bonds whose interest rate fluctuates from time to time.