AGENDA ITEM NO. 4

ABAG FINANCE AUTHORITY FOR NONPROFIT CORPORATIONS
A Joint Powers Authority of Cities and Counties
Meeting of 18 November 2015

The Executive Committee of the Board of Directors of the ABAG Finance Authority for Nonprofit Corporations is requested to consider a proposal, including **Resolution 15-08**, authorizing the reissuance of $11,945,000 in privately placed, tax-exempt bond financing for the nonprofit Institute for Defense Analyses ("IDA" or the "Institute").

The Borrower

The Institute for Defense Analyses is a 501(c)(3) nonprofit corporation that, among other things, administers three federally funded research and development centers to assist the United States Government in addressing important national security issues, particularly those requiring scientific and technical expertise. IDA works only for the federal government. To avoid institutional pressures to support the programs and interests of particular Service branches, the Institute does not work directly for the military departments. Also, to ensure freedom from commercial or other potential conflicts of interest, the Institute does no work for private industry.

The Proposal

The Institute's corporate headquarters is located in Alexandria, Virginia; its Center for Communications Research is located in La Jolla, California (San Diego County). The Authority's Series 2005 Bonds (the "Original Bonds") financed the renovation and expansion of the La Jolla facility. The Original Bonds were insured by Ambac and privately placed with a limited number of investors. Those variable rate demand bonds were further supported by a liquidity facility in the form of a Standby Bond Purchase Agreement (BPA) issued by Wachovia Bank, N.A. Following the market downturn, IDA proposed and the Authority approved a supplemental indenture in 2008 in order to allow Branch Banking & Trust Company (BB&T) to provide a letter of credit (in lieu of the Wachovia Bank Standby BPA) to further support the then-downgraded Ambac insurance on the Original Bonds.

Today's proposal involves the mandatory tender of the outstanding variable (weekly) rate bonds, followed by partial redemption to be funded from debt service reserve fund proceeds. The remaining balance of the bonds would be privately placed with BB&T or its affiliate. IDA would also elect to change its interest rate determination method to an Alternate Rate (68% of 1-month LIBOR +0.585%). In order to accomplish this conversion, the Authority is requested to consider the approval of the enclosed Amended and Restated Loan Agreement and Amended and Restated Trust Indenture. This proposal is part of a larger restructuring involving a total of 6 bond issuances issued for the benefit of IDA, 2 of which are California issues. A TEFRA hearing is not required because neither the final maturity nor the weighted average maturity of the bonds would be extended.

The Authority would function solely as a tax-exempt conduit for funds being lent to the Institute. The Authority would accept no financial risk in the transaction. The financing documentation would contain statements having the same effect as the following:

> **Neither the faith and credit of the Authority or the Association of Bay Area Governments nor the faith and credit or taxing power of any member of the Authority, the Association of Bay Area Governments, the State of California, or any political subdivision thereof, is pledged to the payment of the principal of premium, if any, or purchase price of, or interest on these securities or other costs incident thereto except from the specific revenues and funds pledged therefor. These securities are not a debt of the Authority, the Association of Bay Area Governments or the State of California or any political subdivision thereof, and neither the Authority, the Association of Bay Area Governments nor the State of California, nor any political subdivision thereof is liable for the payment thereof.**

The Authority must also receive comprehensive indemnification from the Institute. In accordance with the Authority's Guidelines for such financing, the lender would be required to execute a sophisticated investor letters detailing, among other things, the recognition of risk, the satisfaction of disclosure requirements, the Authority's strict limitations on resale of the securities, and a hold harmless against any lender liability.

Financing Team

Jones Hall, San Francisco, is proposed by the Borrower to serve as Bond Counsel and is also representing the Authority in this matter. Acting General Counsel to the Authority, Ken Moy, has reviewed the bond documents in connection with this proposal. The Borrower's Financial Advisor is Raymond James, New York. The Trustee for this transaction would be Wells Fargo Bank, N.A., Pittsburgh, PA.

Representatives of the Borrower and Bond Counsel have been asked to be available during the Authority's meeting to answer questions about the proposal or the Final Resolution being presented for consideration by the Board.

Recommendation

Staff respectfully request approval of **Resolution 15-08**, authorizing the financing.

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