BEFORE THE COUNCIL OF THE
METROPOLITAN SERVICE DISTRICT

FOR THE PURPOSE OF APPOINTING FIRST INTERSTATE BANK OF OREGON, N.A. TRUSTEE OF CONSTRUCTION AND DEBT SERVICE FUNDS FOR $65,000,000 CONVENTION CENTER GENERAL OBLIGATION BONDS, SERIES 1987	RESOLUTION NO. 87-782 Introduced by the Executive Officer

WHEREAS, On November 4, 1987, the voters of the Metropolitan Service District approved the financing and construction of a convention and trade show center by the District; and

WHEREAS, On June 11, 1987, The Council of the Metropolitan Service District approved Resolution No. 87-767 authorizing the issuance of $65,000,000 General Obligation Convention Center Bonds, Series 1987; and

WHEREAS, The District's Financial Advisor, Government Finance Associates, has recommended the District hire a banking institution to serve as Trustee (or other appropriate title as recommended by Bond Counsel) of "bond proceeds" in order to adequately address the requirements of the Internal Revenue Code of 1986, while continuing to earn reasonable investment yields for the District's taxpayers; and

WHEREAS, The Metro Council in Resolution No. 87-781 appointed First Interstate Bank of Oregon, N.A. as Co-Registrar and Co-Paying Agent; and

WHEREAS, Operating efficiencies and safety are gained in using the same bank for trustee, co-registrar and co-paying agent services; now, therefore,

BE IT RESOLVED,

That the Council of the Metropolitan Service District hereby appoints First Interstate Bank of Oregon, N.A. to serve as the District's Trustee (or whatever title Bond Counsel deems appropriate) for the Construction and Debt Service Funds for $65,000,000 General Obligation Convention Center Bonds, Series 1987.

ADOPTED by the Council of the Metropolitan Service District this 9th day of July, 1987.

Richard Waker

Richard Waker, Presiding Officer

DRC/sm
7776C/506
06/29/87

STAFF REPORT

Agenda Item No. 10.2

Meeting Date July 9, 1987

CONSIDERATION OF RESOLUTION NO. 87-782, FOR THE PURPOSE OF APPOINTING FIRST INTERSTATE BANK OF OREGON, N.A. AS THE TRUSTEE OF CONSTRUCTION AND DEBT SERVICE FUNDS FOR $65,000,000 CONVENTION CENTER GENERAL OBLIGATION BONDS, SERIES 1987

Date: June 29, 1986

Presented by: Ray Phelps

FACTUAL BACKGROUND AND ANALYSIS

Approximately July 16, 1987, the District will receive the proceeds from the sale of $65,000,000 General Obligation Convention Center Bonds, Series 1987. At that time, the District must comply with all the applicable bond covenants in investing bond proceeds, while also ensuring compliance with the new requirements of the Internal Revenue Code of 1986. These requirements (the Code) require thorough tracking and monitoring of investment yields as they relate to yields paid to bondholders (can no longer earn and retain arbitrage).

After analysis of staff capabilities and considering the recommendations of Rebecca Marshall as they relate to the additional work requirements required by the sale of the bonds and the subsequent investment of proceeds and the costs of hiring additional staff resources for the investment function, it was determined a more cost-effective solution would be to enter into a contractual arrangement with an institution that could perform those additional tasks (see attached discussion by Rebecca Marshall). Requests for Proposals were sent to the same institutions who could serve as Paying Agent, and Registrar. After staff analysis and discussion with Government Finance Associates -- it was determined that First Interstate Bank responded more completely to the needs of the District. In addition, additional safety and ease of operation is gained by selecting the same financial institution as trustee who serves as co-paying agent.

The Trustee will manage a Construction Fund and Debt Service Fund -- and provide for the segregation, investment and reporting transactions required by the Internal Revenue Code of 1986, state law and Metro's adopted investment policies. Metro staff will still authorize the placement of investments in accordance with the above.

EXECUTIVE OFFICER'S RECOMMENDATION

The Executive Officer recommends adoption of Resolution No. 87-782.

DRC/sm-7776C/506-06/29/87

Government Finance Associates, Inc.

1300 S.W. 5th Avenue, Suite 2929
Portland, Oregon 97201
503/222-1405

MEMORANDUM

TO: Ray Phelps, Metro

FROM: Rebecca Marshall, Government Finance Associates

RE: INVESTMENT OF PROCEEDS RECOMMENDATIONS

DATE: June 21, 1987

Metro is examining the following options relating to the investment of the Convention Center bond sale proceeds:

1. Investing in State and Local Government Securities (SLGS) after the sale. Metro manages all investments.

2. Hiring a bank Trustee to maximize all investments.

STATE AND LOCAL GOVERNMENT SECURITIES

SLGS are purchased from the Federal Reserve Bank via a subscription process. Each SLG has a specific amount, maturity date and interest rate. Metro would select the amount and maturity date; the Federal Reserve specifies the maximum amount of interest that will be paid for each maturity. SLGS are not negotiable and therefore are not liquid. There are fairly heavy penalties for early redemption and there is no redemption earlier than 25 days on SLGS maturing less than one year and no earlier than one year for SLGS maturing longer than one year. Therefore, Metro must be fairly comfortable with its draw-down schedule or choose to invest shorter than the projected need.

Once investment of the proceeds in SLGS is complete, the investment schedule is set and future investment activity, probably monthly, is reinvestment of the semi-annual interest payments and the maturing amounts if they are not immediately needed. Future interest and maturing amounts may also be invested in SLGs.

The relationship between SLGS and US Treasury Notes and Bonds is not constant: sometimes the SLG rate is higher, sometimes the Treasury Note or Bond rate is higher. For June 18, 1987, the one year SLG rate was 6.73% while the Treasury note rate was 6.90%. The reverse was true for the 3 year rates: SLG was 7.83% while the Treasury Note was 7.64%.

The difference between the one and three year SLG rates was 1.10%, illustrating the desirability of investing for a longer term. The disadvantage of investing long is the inability to take advantage of rising rates, if a rise in rates is expected.

The shortest SLG is one month, unless the "Demand Deposit" option is selected, which is a daily variable rate investment, currently 4.02%. This is usually significantly below the Local Government Pool rate and thus is not used unless the pool limit has been reached.

Metro would be required to accurately transcribe and maintain records of each SLG purchase price for the purpose of calculating the yield required by the 1986 Tax Reform Bill. A CPA firm could be hired to assist in this calculation, but the record must be maintained by Metro.

Government Finance Associates recommends against this approach to investing the proceeds. It fails to maximize the potential allowable earnings (see below); reduces liquidity in case the actual construction is more rapid than the draw-down schedule and requires extensive paperwork and management by Metro staff just to meet the 1986 Tax Reform Bill requirements.

TRUSTEE

Government Finance Associates has recommended that Metro hire a Trustee bank to function in a manner similar to that of a revenue bond Trustee PLUS assuming the 1986 Tax Reform Bill requirements. The Trustee would:

1. Hold the bond proceeds and write all checks upon the proceeds for the purposes specified in the Trustee Agreement.

2. Invest the proceeds and related monies (semi-annual earnings) in the manner indicated by Metro. Metro will obtain advice from its own staff, from any advisors it may select, or from the Trustee. The Trustee will execute whatever paperwork is required for each investment. The Trustee will monitor the earnings and maturing investment amounts; whatever is not required by Metro, the Trustee will reinvest thereby assuring that all funds are fully invested until needed. If the rate on SLGS is superior to other investments, the Trustee will complete the subscription forms for Metro's signature and then deliver to the Federal Reserve for purchase.

   We are exploring the cost and services of a cash management group which sells government securities. The cost of their services will be absorbed in the purchase price of the security and they have computer software which helps maximize the investment selection. They would work with Metro and the Trustee to create the instructions which the Trustee requires for all investments. Metro must legally maintain control of all investment selections.

3. Maintain all records required by the 1986 Tax Reform Bill and by Metro.

4. Provide its annual calculation of yield according to the specifications of bond counsel. This calculation should be reviewed and verified by Metro's auditors.

The primary benefits of the Trustee arrangement are the records kept for the 1986 Tax Reform Bill requirements and the ability to maximize investments with a minimum of paperwork for Metro. Keeping the funds fully invested is of obvious importance and will involve at least monthly reinvestment for the three years of construction.

If the construction proceeds rapidly and funds are needed prior to the date indicated in the original draw-down schedule - and thus prior to maturity of the investments - and if the Trustee invested in Federal Treasury notes or bonds, there is a very liquid market for selling these securites. The price will vary with the market, although a fairly short maturity should contain much less risk. Therefore, the penalty to redeem prior to maturity is usually less than for a SLG or Certificate of Deposit and offers the best opportunity to take advantage of longer term interest rates while improving access to the funds when needed. It is even possible to make money on the sale of the security, although in a rising market, this is not the case. If interest rates fall, the Trustee should examine the possibility of selling a soon to mature Treasury security for the gain and investing short for the month or two.

At the beginning of the investment period it will not be possible to earn as much interest as allowed under the 1986 Tax Reform Bill. This situation is referred to as "negative arbitrage." Therefore, the Trustee should attempt to make up the lost earnings by investing over the maximum yield whenever possible until the accumulated earnings approach the allowable amount. Then investments should be limited to slightly below the allowable yield. This will take some active management, which will cost a service fee to Metro, but should provide a greater return to Metro. For example, while the bond rate is 8.00%, the average return on the investments would be about 7.50% in today's market. If rates rise, the Trustee might be able to invest at 8.50% until the average yield is barely below the allowable yield (for discussion, assumed to be 8.00% here.) This would earn another 0.5% on the maturing proceeds or the earnings coming due. The ability to maximize investment return requires that not all proceeds be invested to the full term of the draw-down schedule. Government Finance Associates, the Trustee and the cash management team will advise Metro on the best strategy for investing the initial proceeds.

GOOD FAITH CHECK

At the time of sale, Metro will receive a good faith check of $500,000. These funds represent the earnest money of the underwriter and are part of the $65,000,000 proceeds. While it has never happened to my knowledge and experience, the check must be refunded if Metro should do anything to cause the failure of closing after the sale is complete. Therefore, it is generally not recommended that Metro invest the check longer than the period between the sale and closing. Most issuers invest the check with the Local Government Investment Pool. Since the period is currently only one week, the other investments are limited to repos and the demand deposit SLGS. The least amount of paperwork and usually the superior interest rate is the Local Government Investment Pool.

RECEIPT OF FUNDS

Once the Trustee is selected, an account for disbursement of the proceeds will be established. The fund will have an account number which is then wired to the successful purchaser after the sale. On the day of closing, the funds will be wired to this account. The Trustee should have instructions for investing the proceeds. Certain expenses should be immediately paid out; the Trustee should have a list of these expenses and the persons or entities to which the checks should be addressed. Government Finance Associates recommends that the Trustee handle even the first disbursements since this will keep a coherent record of all bond proceeds expenditures.

BRINGING THE TRUSTEE ON BOARD

Government Finance Associates recommends upon return from New York, the Trustee, Bond Counsel, Metro and Government Finance Associates meet to discuss the Trustee Agreement and the duties of the Trustee. Assignments should be made so the closing flows smoothly. The input of the Trustee and Bond Counsel should be solicited for the new investment guidelines. The Trustee should be requested to provide its recommendations regarding investment of the proceeds during the month after closing awaiting the new investment guidelines.

The decision regarding the use of a cash management team from which to purchase securities should also be finalized soon and the team brought into the generation of the Trustee Agreement and investment guidelines.

cc: Harvey Rogers
Bonnie Kraft
Susan McGrath

10.2 Consideration of Resolution No. 87-782, for the Purpose of Appointing First Interstate Bank of Oregon, N.A. as the Trustee of Construction and Debt Service Funds for $65,000,000 Convention Center General Obligation Bonds, Series 1987

Ray Phelps, Director of Finance & Administration, reported that in order to comply with all the applicable bond covenants in investing bond proceeds, and in order to comply with the nre requirements of the Internal Revenue Code of 1986, Metro had to thoroughly track and monitor investment yields paid to bondholders. Staff recommended contracting with an outside financial institution which would result in a considerable cost savings to Metro.

In response to Councilor Kirkpatrick's question, Rebecca Marshall, Vice President of Government Finance Associates, explained that staff had analyzed the proposals of the three firms quoting the lowest costs for services. First Interstate had offered to provide more services than the other proposers.

Motion: Councilor Ragsdale moved Resolution No. 87-782 be adopted. Councilor Kelley seconded the motion.

Vote: A vote on the motion resulted in all twelve Councilors present voting aye.

The motion carried and Resolution No. 87-782 was unanimously adopted.

Presiding Officer Waker called a recess at 7:55 p.m. The Council reconvened at 8:00 p.m.

EXECUTIVE SESSION

At 8:00 p.m., the Presiding Officer called the meeting into executive session under the authority of ORS 192.660(1)(e) for the purpose of discussing real property transactions. The meeting was called back into regular session at 8:30 p.m.

Motion: Councilor Ragsdale moved, seconded by Councilor Gardner, to authorize the Portland Development Commission (PDC) to acquire the Kalberer and Enebo properties for the Oregon Convention Center for the amounts recommended by the PDC.

Vote: A vote on the motion resulted in all twelve Councilors present voting aye.

The motion carried.