



MEMORANDUM

TO: Jeff Parker
Colin Tudor

FROM: E. J. De La Rosa & Company

DATE: July 17, 2006

SUBJECT: **General Obligation Bond Financing Costs for Johnson’s Pasture Acquisition**

The purpose of this memorandum is to summarize the financing costs associated with issuance of General Obligation Bonds (“G.O. Bonds”) by the City of Claremont (“City”).

FINANCING COSTS

Under the issuance of G.O. Bonds, we made the following assumptions:

- Raise \$11.25 million in net bond proceeds to fund acquisition of Johnson’s Pasture;
- Issuance of 30-year bonds; and
- Bond closing on 12/14/06.

The following chart outlines the estimated financing costs.

| Item | Sources & Uses | Amount |
|-------------|---------------------------|----------------------|
| | Par Amount of Bonds | 12,500,000 |
| | Total Sources | \$ 12,500,000 |
| 1 | Deposit to Project Fund | 11,250,000 |
| 2 | Capitalized Interest Fund | 496,340 |
| 3 | Credit Enhancement Fees | 196,886 |
| 4 | Bond Issuance Costs | 343,750 |
| 5 | Contingency | 213,024 |
| | Total Uses | \$ 12,500,000 |

A more detailed explanation of each financing cost component (“Items 1-5” shown in the chart above) is reviewed below.

Item 1 – “Deposit to Project Fund” – Net bond proceeds available to fund acquisition of Johnson’s Pasture.

Item 2 – “Capitalized Interest” – Since the issuance of G.O. bonds will occur after the August 2006 deadline to put property tax levies on the FY 2006-07 County tax rolls, the first year of tax collection to make bond payments will not occur until FY 2007-08. As a result, a portion of the bond proceeds must be raised to make interest payments to cover the period between the bond closing (projected: 12/14/06) to September 2007. The first bond payment covered from collected taxes will be the March 2008 payment.

Item 3 – “Credit Enhancement Fees” – This fee is used to purchase a bond insurance policy from a highly-rated financial institution. The bond insurance covers bond investors in case there is a late payment or default. By acquiring a policy, the City’s bonds will secure an “AAA” bond rating (the highest bond rating in the marketplace). The “AAA” rating will enable the City’s bonds to garner the lowest interest rates.

The City’s bonds can be issued without bond insurance; however, the resulting interest rates for the City’s bonds would be higher. A bond insurance policy would only be purchased for the City’s bonds if the resulting interest savings are greater than the upfront bond insurance premium paid. The bond insurance premium is calculated by taking the total debt payments made on the bonds and multiplying it by a fixed percentage set by the bond insurance company. Based on the credit characteristics of the City’s bonds, the estimated maximum percentage charged by a bond insurance company would range up to 0.75% for a City G.O. bond.

Item 4 – “Bond Issuance Costs” – These costs cover payment of fees for all professional fees paid to lawyers, financial consultants and other third parties in putting together a bond financing.

Item 5 – “Contingency” – This amount covers potential cost overruns associated with Items 1-4.

CURRENT ESTIMATE OF THE PROPOSED ANNUAL G.O. TAX LEVY

If the City pursues a \$12.5 million G.O. bond financing to fund the acquisition of Johnson’s Pasture, the average annual bond payments are estimated to be about \$890,000. Spreading this average bond payment over the total AV in the City (based on the FY 2005-06 tax roll) produces a projected average annual tax per \$100,000 AV of \$24.73. The highest tax rate per \$100,000 AV is projected to be \$32.93 occurring in FY 2007-08 (the first year G.O. taxes will be levied). Assuming 2% growth in property values, the annual tax per \$100,000 AV will decrease overtime to \$18.48 in FY 2035-36 (final term of the bonds).