



# Municipal Bond Bullet-Point Credit Reviews Prepared for

*(Client Name Withheld)*

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## **ABOUT SAVADER ASSET ADVISORS**

Savader Asset Advisors, LLC helps asset managers understand and successfully manage the credit risk associated with tax-exempt securities. Our team's experience and skills in municipal credit research and portfolio management helps investors maximize the financial benefits of tax-exempt securities while minimizing the risks associated with evolving credit conditions.

SAA is an affiliate of StoneCastle Partners, LLC, a leading asset management firm with approximately \$2.3 billion under management. StoneCastle specializes in community risk—which includes municipal securities—using an investment philosophy based on its own fundamental credit research.

## **CREDIT GRADES**

Each of the municipal securities included in this review have been assigned credit grades to summarize our opinion of their respective credit quality.

### Credit Grade Definitions

10	Strongest	Typical of pre-refunded bonds secured by escrowed securities issued by the federal government
9	Strong	Reflects ample strength among measures of bondholder security
8	High Quality	Credit possesses broad margins of bondholder protection
7	Sound	Credit attributes appear generally sound and stable
6	Satisfactory	Overall credit quality appears in good shape, though some weakness or vulnerability may be apparent
5	Adequate	Bondholder security appears adequate, though significant weakness or vulnerability is evident among one or more credit attributes
4	Speculative	Overall credit quality characterized by significant weakness or vulnerability
3	Highly Speculative	Credit attributes particularly weak and posing considerable risk of future default
2	Impaired	Potential for default appears likely over near-term given current trends
1	Default	Payment default has occurred or appears imminent

This presentation has been prepared for general information purposes only. It does not have regard to the specific investment objectives, financial situation and particular needs of any investor who may receive this report. Investors should understand that statements regarding future prospects may not be realized. Investors should also note that income from securities, if any, may fluctuate and that each security's price or value may rise or fall. Past performance is not necessarily a guide to future performance.

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**Southern California  
Public Power  
Authority**

**Revenue Bonds  
(Magnolia Power  
Project A)**

**(Representative  
CUSIP 842475ZT5)**

- Credit Grade: 7
- Bondholder security appears sound given the essential nature of the services provided, the size and economic importance of the service area, the satisfactory coverage of debt service requirements by pledged revenues, and certain legal covenants that enhance bondholder security.
- The Bonds are secured by a pledge of Authority revenues, which consists primarily of payments made by each participating member who benefit from the Authority's services. The Authority covenants to charge rates in an amount sufficient to pay debt service and other requirements as legally required. A debt service reserve fund is also available to help ensure the payment of debt service on the Bonds.
- Also noted is a legal requirement whereby communities that are members of the Authority, and participating in the project, are required to step-up and cover insufficiencies stemming from another member's failure to make a required payment.
- The Authority has entered into power sales, natural gas sales and transmission service agreements with its participating members who are obligated to make the payments for their proportionate share of operating and maintenance expenses as well as debt service required to be paid to bondholders, regardless of the level of service actually received. The contracts cannot be terminated or amended in any manner that will impair or adversely affect the rights of bondholders as long as the Bonds remain outstanding.
- The Authorities membership is comprised of 12 cities and an irrigation district that together cover a large portion of Southern California. The participating members are all located in Los Angeles, Santa Clara, Orange and San Bernardino Counties. Six members are acquiring entitlements for all of the capacity and energy of the Project financed. The seven remaining members of the Authority are not participants in the Project and are not obligated to make any payments with respect to the Project.
- The Project consists of a combined cycle natural gas fired power generating plant with a nominally rated capacity of 242 MW and related facilities located in the City of Burbank. The Project commenced operation in September 2005.
- The System's financial profile was adequate with the generation of debt service coverage of 1.2-times in Fiscal Year 2008. In addition, System liquidity is adequate with cash and equivalents of \$8.77 million at FYE 2008, the equivalent of approximately 8.3% of operating expenses.
- The Authority's service area is very broad and the regional economy has suffered from the recession that has taken a heavy toll on both a statewide and national basis. The economic weakness is reflected in unemployment rates that stood at 12.1% and 9.4% for the state and nation respectively in July 2009. Concern over the region's current and near-term economic conditions is mitigated by its long-term economic prospects as well as the highly essential nature of the Project.

**Tracy Community  
Development Agency,  
CA**

**Tax Allocation Bonds,  
Series A and  
Subordinate Tax  
Allocation Bonds,  
Series B**

**(Representative  
CUSIP 892373BY6)**

- Credit Grade: 6
- Bondholder security appears satisfactory given the Agency's good coverage of debt service requirements and adequate legal package. Of some concern are the state's budget problems and its repeated attempts to take revenues of redevelopment agencies. This is mitigated by the State's past practice of not taking so much revenue as to impair the ability of these agencies to pay debt service, a practice that is not expected to change during the current fiscal crisis.
- The Bonds are special obligations of the Agency and are secured by a first lien on and pledge of certain tax revenues collected by the Agency on incremental tax values from within the project area. Additional bonds may not be issued on parity with the Series A Bonds. Additional bonds may be issued on parity with the Series B Bonds if tax revenues in the most recent fiscal year cover maximum annual debt service on outstanding and proposed debt by at least 1.25-times. Series A and Series B debt service reserve funds were established with Bond proceeds.
- The City of Tracy encompasses an area of approximately 21 square miles and is located on the southeastern edge of San Joaquin County, about 61 miles east of the City of San Francisco and 68 miles south of Sacramento. The City had a 2007 population of 81,464, reflecting an increase of 43.1% from 2000. Per capita income in 2007 was slightly lower than the state median at \$27,068, or 96.5% of the State average.
- The project area is the only one in the City, encompassing an area of 2,292 acres, or approximately 17% of the total area of the City. The project area is 48.4% residential, 32.7% commercial, 3.5% industrial, 9.5% unsecured, 3.3% vacant and 2.6% other.
- The project area is large and growing as evidenced by the recent trend in assessed valuations. The project area's 2008 assessed value stood at approximately \$1.32 billion, reflecting an increase of almost 3% from the previous year and 46.29% over the previous five years. Incremental assessed values represented approximately 78.2% of the Project Area's overall assessed value.
- The tax base is diverse with the ten largest taxpayers accounting for 12.0% of total assessed value in Fiscal Year 2008. The Agency did not report any assessment appeals in its 2008 continuing disclosure statement.
- Tax receipts generated by the Area's incremental taxable value provided satisfactory coverage of annual debt service requirements over the last two years. Debt service coverage was 1.54-times in 2008, down slightly from the 1.62-times ratio reported for the previous year.
- The local economy is doing better than the state as a whole as shown by the City's unemployment rate of 10.1% in July 2009, significantly below the 12.1% statewide average.

**San Joaquin Hills  
Transportation  
Corridor Agency, CA**

**Toll Road Refunding  
Revenue Bonds**

**(Representative  
CUSIP 798111CD0)**

- Credit Grade: 4
- Bondholder security is strained reflecting narrow coverage of annual debt service requirements by pledged revenues and only adequate legal protections. The toll road operated by the Agency has not performed as expected, requiring the Agency to use reserves and other funds to comply with various security provisions.
- The Bonds are payable from pledged revenues after payment of the 1993 bonds (\$220.2 million outstanding) and certain related reserves. Additional senior lien bonds may not be issued. Additional parity bonds may be issued if adjusted toll revenues in 12 of the most recent 18 months are at least 1.3-times maximum annual debt service and 2.0-times annual debt service. The Agency covenants to set rates to generate pledged revenues sufficient to cover total outstanding debt service at least 1.3-times. Realistically, there is not much elasticity in toll rates to meet this covenant. At a certain price travelers will use other roads. The debt service reserve requirement was satisfied as of FYE 2008.
- The Agency is a joint powers agency formed by Orange County and the ten cities within the county to build the toll road, which is a limited access six-lane toll highway, stretching fifteen miles from Interstate 405 in Santa Ana south to a connection to Interstate 5 in San Juan Capistrano.
- Orange County is a heavily populated and affluent part of the state. In 2007 it had population of 2,988,407, an increase of 5.00% from 2000. Per capita income was \$32,890 or 117% of the state median. The local economy appears to be doing better than the state and national economy as shown by unemployment of 8.6% in May 2009, compared to 11.0% for the state and 9.5% for the nation.
- Since the opening of the toll road in November 1996, toll revenues have averaged about 50% less than original projections. Toll transactions in FY 2008 totaled 30.06 million, down 3.3% from the previous year and up 2.2% in four years. A twenty five cent rate increase was instituted in 2007, contributing to increased toll revenues for fiscal year 2008. Toll revenues were \$96.37 million, an increase of 2.53% from the previous year and 37.86% in four years.
- At the end of FY 2008 the Agency had \$2.03 billion of bonds outstanding. Debt service has been met over the past five years largely from capitalized interest from the 1993 bonds and toll stabilization funds. Debt service coverage dropped from 1.46-times in 2004 to 1.31-times in 2008.
- The Agency has tried various actions to improve operating performance including increasing toll rates, establishing a toll rate stabilization fund, and reducing operational costs by competitively bidding major operations related contracts.
- On November 10, 2005 the Boards of the Agency and FETCA entered into a mitigation payment and loan agreement which will help the Agency avoid a technical default and help FETCA move forward with construction of the southern extension of Route 241. FETCA has made four payments to the Agency totaling \$120 million over the past four years as mitigation for loss of revenue due to the road construction. In addition to the mitigation, the agreement also establishes a loan to the Agency, on an as-needed basis, for up to \$1.04 billion to help the Agency achieve its 1.3-times rate covenant.

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|  | <ul style="list-style-type: none"><li>• In April 2003, FETCA and the Agency formed a joint powers agency, the Transportation Corridor System (TCS) to explore the possibility of forming a single transportation corridor to manage both toll roads as a single system. TCS would purchase assets of both agencies and each agency would use the proceeds from the sale to extinguish existing debt. A decision on whether the acquisition will occur is anticipated in 2009.</li></ul> |
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