

SINKING FUND INVESTMENT PROGRAM – SERIES 2009-2012

FINANCE AND INVESTMENT COMMITTEE DECEMBER 8, 2015
BOARD OF GOVERNORS MEETING, DECEMBER 9, 2015

EXECUTIVE SUMMARY

Overview

- The outstanding Series 2009A, 2010A, 2011A, and 2012A Bonds have required monthly sinking fund deposits for principal and interest that need to be made with the indenture trustee, Regions Bank
- At the June 2015 Board of Governors meeting, we received conceptual approval by the Board to evaluate a forward deposit agreement, however the ratings requirement for providers in the Indenture restrict entry into a forward delivery agreement (there are no remaining “AA” rated counterparties in the market)
- The Indenture allows for the funds to be invested in U.S. Treasury or Agency securities rated AA or higher for the Debt Service Fund Account; therefore purchasing individual securities enables Citizens to earn a higher fixed rate by moving out on the yield curve and capturing a higher fixed rate of return for the monthly deposits
- Each month, Raymond James and Citizens will evaluate the economic feasibility of investing the deposited funds through a competitive bid process for U.S. Treasury or Agency securities. Upon settlement, the winning provider will deliver the securities directly to the indenture trustee
- The up-front programmatic expenses will be similar to the proposed FDA expenses, not to exceed \$100,000 in the aggregate
 - Legal expenses will be incurred to conduct the initial review of the term sheet utilized in the bid procurement of the securities
 - Indenture Trustee expenses will be incurred to review the process
- Raymond James’ fees will be paid directly by the winning provider(s) of the competitive bids, not to exceed \$35,000 per bid

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RECOMMENDATION

Estimated Returns and Earnings

- *If the current yield curve remains constant, the expected earnings through June 1, 2017 are approximately \$1.9 million*
- *If rates increase, Citizens will benefit dollar for dollar from the increased earnings realized from the higher yields. If rates decline, or it is inefficient, then the funds will be invested in money market funds as they are currently being invested*
- *We are asking for approval by the FIC and the Board to implement this sinking fund program*