

AGENDA



Thursday, January 10, 2008

**Treasury Office
RECOMMENDATION FOR COUNCIL ACTION****Item No. 45**

Subject: Approve an ordinance amending Ordinance No. 20070910-003, the City's 2007-2008 Operating Budget, to revise City of Austin Financial Policies.

For More Information: Leslie Browder, Chief Financial Officer, 974-2283

Boards and Commission Action: Recommended by the Audit and Finance Committee.

The City of Austin Financial Policy amendments are blacklined on the accompanying ordinance.

A new section entitled "General Debt Management Policies" will be added to the City's Financial Policies. The three new policies are as follows:

1. The City utilizes several methods of debt issuance, either selling bonds competitively, by negotiated sale, or through private placement. The City may issue bonds by negotiated sale when appropriate, based on prevailing market conditions, size or structure of the planned issuance, or other factors. The City shall use the competitive sale method when issuing general obligation bonds, unless a negotiated sale or private placement would be more advantageous.

The addition of this policy will ensure that the City has the flexibility to conduct bond sales in the method best suited for any given market conditions and/or bond structure. By utilizing the method that results in the lowest true interest cost, the City will be able to reduce the interest expense associated with bond issuance.

Although competitive sales are generally believed to result in the lowest cost, certain situations limit the use of this method. The City, pending completion of its 2006 audited financial statements, executed a private placement for its 2007 General Obligation bond sale that resulted in lower interest rates than those attained on competitive sales of comparable bonds that occurred around the same time.2. The City shall use competitive procurement methods to select professional firms used in the bond issuance process.

The City will issue a Request for Qualifications (RFQ) when seeking underwriting firms. Those firms interested in conducting business with the City are encouraged to respond. A team of City staff members will review the qualifications submitted and assign points based on a pre-established scoring matrix. The competitive nature of the selection process will ensure that the City can assemble the most qualified team of underwriting firms. This approach will provide the City with a diverse array of financing, re-financing and restructuring ideas that ultimately reduce interest expense associated with debt.3. The City's financial advisor must be a firm that is independent of banking, underwriting, or other interests to assure that the selected financial advisor can effectively represent the City in negotiations with bankers, underwriters, and other service providers needed for the issuance of debt.

The independent nature being required of the City's financial advisor will eliminate the possibility of improper results stemming from any review/analysis by the financial advisor of transactions being presented to the City. Professional firms that offer financial advisory services in addition to underwriting and/or banking functions may improperly recommend certain transactions to the City that would benefit the firm in multiple areas. This arms length approach to financial decisions being recommended by a

financial advisor will result in more objective and credible results. Six out of the top ten national financial advisory firms are independent financial advisory firms, so adequate competition is still anticipated when contracts are re-solicited.

In the current section entitled "Austin Energy", a change in Policy # 8 is proposed to the City's Financial Policies.

8. Commercial paper may be used to finance capital improvements required for normal business operation for Electric System additions, extensions, and improvements or improvements to comply with local, state and federal mandates or regulations. However, this shall not apply to new nuclear generation units.

Commercial paper will be converted to refunding bonds when dictated by economic and business conditions. Both Tax Exempt and Taxable refunding bonds may be issued in order to comply with the Internal Revenue Service Rules and Regulations applicable to Austin Energy.

Commercial paper may be used to finance voter approved revenue bond projects before the commercial paper is converted to refunding bonds.

- Expands the use of commercial paper to include all capital improvements for electric system additions, extensions, and improvements (excluding new nuclear generation units) or improvements to comply with local, state and federal mandates or regulations to provide financing tool with lowest interest costs
- City Council controls remain in place
- Approval of Capital Budget and contracts over \$50,000
- Approval of election ballot for referendum or bond elections
- Allows use of commercial paper to finance voter-approved revenue bond projects before the commercial paper is converted to refunding bonds. This is consistent with the AWU policy.