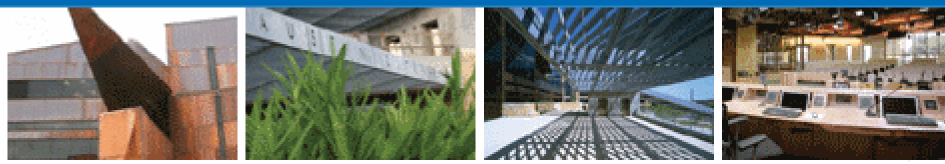
A U S T I N C I T Y C O U N C I L

AGENDA



Thursday, April 24, 2008

Treasury Office **Item No. 60**
RECOMMENDATION FOR COUNCIL ACTION

Subject: Approve an ordinance authorizing a mode change from auction rate securities to weekly reset variable rate demand bonds for the $281,300,000 currently outstanding City of Austin, Texas, Airport System Variable Rate Revenue Refunding Bonds, Series 2005, and approve and authorize all necessary documents relating thereto.

Amount and Source of Funding: Airport revenues will fund any change in debt service requirement and will be included in the Fiscal Year 2008-2009 Proposed Budget of the Airport Revenue Bond Redemption Fund.

For More Information: Art Alfaro, Treasurer 974-7882

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

Prior Council Action: The City of Austin, Texas, Airport System Variable Rate Revenue Refunding Bonds, Series 2005 were approved by Council on June 17, 2004

In 2005, the City entered into an interest rate management agreement to refund part of its outstanding Airport System debt from fixed rate bonds to variable rate obligations utilizing auction rate securities ("ARSs"). These securities are, in fact, long-term bonds but weekly or monthly auctions are held to set the interest rate. Recently, with a lack of liquidity in the marketplace, investors became disinterested in auction rate securities which led to a week-long period where several of these auctions failed. Although the Airport System securities did not incur a failed remarketing, the current lack of interest in these securities requires higher interest rates in order to attract new investors or to appropriately compensate the current investor for the new risk associated with an illiquid investment. Therefore, the Austin Airport has experienced an increase in the interest rate associated with this debt and may continue to experience the higher rates due to the market volatility. Fortunately, the documents governing this transaction allow for a mode change from auction rate securities to weekly reset variable rate demand bonds ("VRDBs"), which are not experiencing the liquidity issues adversely affecting the ARS market. VRDBs, unlike ARSs, are ultimately backed by a letter of credit and the risk of future increases in the variable rate to the City is minimized.

The effect of the 2005 refinancing was substantial with a present value savings level of 12.48%. After payment of additional costs associated with this mode change transaction (higher interest, underwriting, and issuance costs), the expected net present value savings will be reduced to 10.9%, which still far exceeds the City's threshhold for such refunding of 5.25%.

In addition to the ongoing debt service requirements, there will be certain one-time cost of issuance fees associated with execution of this transaction. The estimated total for these fees is $850,000 and will be paid to the following entities acting in the capacity noted:
Public Financial Management – Financial Advisor
Vinson & Elkins L.L.P. – Bond Counsel
McCall, Parkhurst & Horton – Disclosure Counsel
Morgan Stanley and Morgan Keegan & Company – Underwriters
Standard & Poor's – Rating Agency

Dexia Credit Local – Liquidity Provider
Financial Security Assurance Inc. - Insurer