

AGENDA



Thursday, May 22, 2008

**Neighborhood Housing and Community Development
RECOMMENDATION FOR COUNCIL ACTION**

Item No. 12

Subject: Approve an ordinance authorizing the City Manager to negotiate and execute refinancing of the balance owed on the Section 108 Loan (B-94-MC-48-0500) for the Millennium Youth Center as part of the United States Department of Housing and Urban Development's June 2008 public offering

Amount and Source of Funding: Funding is available in the 2007-2008 Operating Fund of the Neighborhood Housing and Community Development Office.

In 1996, the City applied for and received the Section 108 Housing and Urban Development (HUD) loan (B-94-MC-48-0500) (Section 108 HUD Loan) to rehabilitate, convert, construct and equip the Millennium Youth Entertainment Center in east Austin. The Section 108 HUD loan was an amount not to exceed \$8,785,000 to construct the Millennium Youth Entertainment Center. The total project costs were approximately \$9,585,017. The Section 108 HUD Loan was set up on a 20 year note with bi – annual payments made for debt service including an interest only payment in February and an interest and principal payment due in August. Council authorized the execution of the original loan in Ordinance No. 960718-G, July 18, 1996. The current ordinance before Council will authorize the City Manager to refinance the remaining balance of the Section 108 HUD Loan at a lower interest rate than the City is currently paying.

The Section 108 HUD loan currently has a balance owed of approximately \$4,860,000 with payments due through August 1, 2016. Of this amount over \$1.26 million remain in interest payments on the debt. By defeasing the August 1, 2008 principal and interest payment in June 2008, and refinancing the remaining balance of \$4,410,000 in the June 5, 2008 Public Offering, the City can save approximately \$416,675.50 in interest expense through the term of the loan. This is due to favorable conditions in the market. The interest rates for the upcoming public offering are expected to be significantly lower than those the City is currently paying. Based on the most recent benchmark yields and spreads furnished by the Section 108 underwriting group, HUD provided an estimate of the amount of interest saved as follows:

\$1,261,813.00 Current interest owed
\$ - 800,977.50 Projected interest owed
\$460,835.50 Projected savings

\$ -(44,100.00) -Less issuance costs
\$416,675.50 Total projected savings

Issuance costs will range from approximately 0.5 to 1% of \$4,410,000. The total projected savings are modeled after the 1% that HUD has indicated is the maximum amount. These amounts are only estimates and the actual interest rates for the upcoming public offering will be determined in May on the pricing date, one week prior to the closing. The interest savings could vary slightly depending on the actual rates.

Below is a comparison of the City's current rates under Series 1999-A Public Offering from the original note and the projected rates for this year's Public Offering which will be effective with the fiscal year 2009 debt service payments.

Current Interest Rate on remaining Payments and Projected Rates:

5.96%	2009	2.69%
6.06%	2010	2.97%
6.16%	2011	3.19%
6.26%	2012	3.71%
6.33%	2013	4.04%
6.41%	2014	4.21%
6.49%	2015	4.38%

In order to take advantage of the Public Offering a maximum defeased payment of \$645,729.50 will be due on or about June 12, 2008 for the August 1, 2008 payment. The amount of the defeasance is:

\$450,000.00 August 1, 2008 scheduled Principle payment +
\$151,629.50 August 1, 2008 scheduled Interest payment +
\$44,100.00 Estimated issuance costs @1%

\$645,729.50 is the total amount to defease the August 2008 payment.