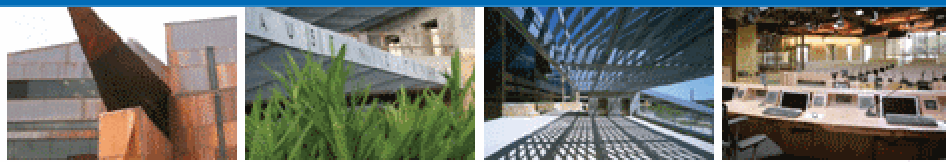
AUSTIN CITY COUNCIL

AGENDA



Thursday, July 24, 2008

Discussion and Possible Action on Bond Sales **Item No. 101**
RECOMMENDATION FOR COUNCIL ACTION

Subject: Approve an ordinance authorizing the issuance of City of Austin, Texas, Hotel Occupancy Tax Subordinate Lien Variable Rate Revenue Refunding Bonds, Series 2008, in an amount not to exceed $135,000,000; providing for payments secured by the net revenues of the City's Hotel Tax Revenue Bond Redemption Fund; and delegating to City officials the authority to establish the interest rate and other key terms and provisions for the bonds and to negotiate and execute related documents.

Amount and Source of Funding: Costs of issuance totaling $2,500,000 and the reserve fund totaling $8,300,000 will be paid from the Fiscal Year 2007-2008 Budget of the Hotel Tax Revenue Bond Redemption Fund. The first year debt service requirement of approximately $4,000,000 and all estimated annual administration fees are included in the Fiscal Year 2008-2009 Proposed Budget of the Hotel Tax Revenue Bond Redemption Fund.

For More Information: Art Alfaro, Treasurer 974-7882

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

Prior Council Action: On June 23, 2005, Council approved an ordinance authorizing the issuance of City of Austin, Texas, Hotel Occupancy Tax Subordinate Lien Variable Rate Revenue Refunding Bonds, Series 2005 and approved an interest rate management agreement associated with such bonds.

In 2005, the City refunded a portion of its outstanding hotel occupancy tax debt from fixed rate bonds to variable rate obligations utilizing variable rate demand bonds (VRDB's) and entered into an interest rate management agreement. This interest rate management agreement permitted the City to pay a fixed rate and receive a variable rate similar to that paid by the City on the VRDB's. This bond issue was insured by CIFG Assurance North America Inc. (CIFG). As a result of credit rating agencies downgrading CIFG's credit rating below "AAA" the bonds are now being remarketed at higher than desired interest rate levels. The City's financial advisor recommended the City refund the Series 2005 bonds to remove CIFG as the bond insurer and obtain a letter of credit so the Series 2008 bond interest rates will return to lower levels. The original benefit of the 2005 refinancing was substantial, with net present value savings of 14.33%. After payment of costs associated with the insurer downgrade (higher interest, underwriting and issuance costs), the net present value savings will be reduced to approximately 9%, which still far exceeds the City's financial policy for such refunding of 5.25%.

To provide the City with the flexibility to quickly respond to changing market conditions, the proposed Ordinance also delegates the authority to the City Manager or Chief Financial Officer to establish the initial interest rate and other key terms and provisions for the bonds in accordance with the parameters in the Ordinance.