

AGENDA



Thursday, June 24, 2010

**Neighborhood Housing and Community Development
RECOMMENDATION FOR COUNCIL ACTION**
Item No. 30

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 July 2010 public offering.

Amount and Source of Funding: \$639,208 for the August 2010 debt service requirement and \$17,075 estimated closing cost is included in the fiscal year 2009-2010 budget of the Neighborhood Housing and Community Development Office, Community Development Block Grant Fund.

Fiscal Note: There is no unanticipated fiscal impact. A fiscal note is not required.

For More Information: Betsy Spencer, Acting Director, Neighborhood Housing and Community Development, 974-3182.

Prior Council Action: July 18, 1996 - Council approved Section 108 Housing and Urban Development (HUD) Loan

In 1996, the City of Austin applied for and received the Section 108 Housing and Urban Development (HUD) loan (B-94-MC-48-0500) to rehabilitate, convert, construct, and equip the Millennium Youth Entertainment Center in east Austin in an amount not to exceed \$7,830,000. 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 was set up on a 20 year note with bi-annual payments for debt service including an interest only payment in February and an interest and principal payment due in August. The City's current note will be paid off during the public offering from the proceeds of a new promissory note that would be financed in the public offering in July. Currently, \$736,373 remains in interest payments on the debt. By defeasing the August 1, 2010 principal and interest payment and refinancing the remaining balance of \$3,930,000 in the July 21, 2010 Public Offering, the City can save approximately \$447,460 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:

\$ 736,373 Current interest owed

\$ 271,838 Projected interest owed

\$ 464,535 Projected savings

\$ 17,075 Less issuance costs

\$ 447,460 Total projected savings Issuance costs will range from approximately 1/2% to 1% of the loan amount. These amounts are only estimates and the actual interest rates for the upcoming public offering

will be determined in July 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 2000-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 2011 debt service payments.

Current Interest Rate on remaining Payments and Projected Rates:

Maturity date	2000-A	2010-A
1-Aug-2011	6.16%	0.71%
1-Aug-2012	6.26%	1.33%
1-Aug-2013	6.33%	1.91%
1-Aug-2014	6.41%	2.45%
1-Aug-2015	6.49%	2.95%
1-Aug-2016	6.59%	3.34%
1-Aug-2017	6.66%	3.62%
1-Aug-2018	6.72%	3.88%

1-Aug-2019 0.00% 4.05% In order to take advantage of the Public Offering, a maximum defeased payment of 656,283 will be due on or about July 15, 2010 for the August 1, 2010 payment. The amount of the defeasance is:

\$515,000 August 1, 2010 scheduled Principal payment +
 \$124,208 August 1, 2010 scheduled Interest payment +
 \$ 17,075 Estimated issuance costs

\$656,283 is the total amount to defease the August 2010 payment.