

A G E N D A



RCA	Austin City Council	Item ID	4999
Meeting Date:	4/7/2011	Department:	Treasury

Subject

Approve an ordinance authorizing two separate Letter of Credit and Reimbursement Agreements between the City of Austin Sumitomo Mitsui Banking Corporation and The Bank of Tokyo-Mitsubishi related to the \$160,740,000 currently outstanding City of Austin, Water and Wastewater System Variable Rate Revenue Refunding Bonds, Series 2008, and approve and authorize all necessary documents and fees relating to these Letter of Credit and Reimbursement Agreements.

Amount and Source of Funding

Funding for the Letter of Credit fee, estimated at \$685,000 for Fiscal Year 2011 and funding for the one time cost of issuance fees are included in the Fiscal Year 2010-11 Approved Utility Revenue Bond Redemption Fund.

Fiscal Note

There is no unanticipated fiscal impact. A fiscal note is not required.

Purchasing Language:**Prior Council Action:**

The City of Austin, Texas Water & Wastewater Variable Rate Revenue Refunding Bonds, Series 2008 were approved by Council on March 6, 2008.

For More Information:

Art Alfaro, Treasurer, 974-7882

Boards and Commission Action:**MBE / WBE:****Related Items:**

Additional Backup Information

In 2008, the City entered into an interest rate management agreement to refund part of its outstanding Combined Utility System Revenue Refunding Bonds and Water & Wastewater System Revenue Refunding Bonds from fixed rate bonds to variable rate obligations. A necessary component when variable rate demand bonds (VRDBs), are issued, is a Letter of Credit and Reimbursement Agreement (LOC). The City entered into a LOC with Dexia Credit Local Bank (Dexia) at the time the VRDBs were issued. A LOC serves two functions: first, to provide liquidity as a purchaser of the securities in the event there are no buyers in the market for the City's VRDBs, and secondly, as a guarantor for the VRDBs were the City unable to pay the debt service on the VRDBs. The existing LOC with Dexia expires on May 15, 2011. This request, if approved, will allow the City to enter into a new LOC with a team of two banks for a period of 41 months, with an expiration date of October 15, 2014. The rate for the new LOC is 85 basis points, which is higher than the current fee of 35 basis points. With this higher fee, annual costs of the LOC will increase to approximately \$1.3 million in the first year, but will then decrease over the term of the LOC as principal is paid down.

Beginning with the Lehman Brothers bankruptcy in 2008, there was a significant credit crunch, coupled with massive downgrades of the banks that were providing liquidity facilities. Additionally, due to the credit crisis which caused the bond markets to freeze up for a period of time, many bonds failed to be remarketed. This situation forced liquidity facility providers to step up when there is no demand for the variable rate debt that is being remarketed. In performing this function, the liquidity facility banks had to use their capital to provide the funds associated with these agreements. Many banks either quit participating, or could no longer provide liquidity due to their credit ratings, or lack of capital. This string of market events, coupled with continued demand for liquidity facilities and a diminishing number of providers, caused prices to increase dramatically for those issuers who could secure a credit facility. LOC fees in early 2009 were as high as 175 to 200 basis points.

In mid-2009, the credit crunch began to ease and banks with the capacity and willingness to offer liquidity facilities began to enter the liquidity market again. As a result, prices for liquidity facilities have begun trending slightly downward as the market grows more competitive.

The City's Treasury Office solicited in excess of twelve banks that had previously expressed interest in participating in the replacement of this LOC. The team of Sumitomo Mitsui Banking Corporation (SMBC) and The Bank of Tokyo-Mitsubishi responded with a bid of 85 basis points for a 3.5 year term. The City, in conjunction with the City's Financial Advisor, Public Financial Management negotiated the terms of the transaction. Bids were received for one year, two year and three year terms and it is staff's recommendation that the City accept the 3.5 year bid of 85 basis points in order to avoid renewal risks and eliminate administrative costs associated with a renewal.

If Council approves, the City will enter into a LOC with the two banks. The banks' individual commitment amounts will be as follows:

SMBC: \$ 81,559,036 (\$80,370,000 Principal + \$1,189,036 Interest)

Bank of Tokyo: \$ 81,559,036 (\$80,370,000 Principal + \$1,189,036 Interest)

Total not to exceed: \$163,118,072 (\$160,740,000 Principal + \$2,378,072 Interest)

In addition to the ongoing LOC fees, there will be one-time costs associated with execution of this transaction. The estimated total for these fees is \$445,000 and will be paid to the following entities acting in the capacity noted:

Public Financial Management – Financial Advisor
Fulbright & Jaworski L.L.P. – Bond Counsel
McCall, Parkhurst & Horton – Disclosure Counsel
Kutak Rock LLP – Liquidity Counsel
Moody's – Rating Agency
Standard & Poor's – Rating Agency
Fitch – Rating Agency
Foreign Counsel
State of Texas Attorney General
