AUSTIN CITY COUNCIL

AGENDA

Recommendation for Council Action

Austin City Council	**Item ID**	7210	**Agenda Number**	84.

Meeting Date:	6/23/2011	**Department:**	Treasury

Subject

Approve an ordinance authorizing two separate Letter of Credit and Reimbursement Agreements between the City of Austin and JPMorgan and Bank of America related to the $117,530,000 currently outstanding City of Austin, Texas, Hotel Occupancy Tax, Subordinate Lien Variable Rate Revenue Refunding Bonds, Series 2008A&B, 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 $902,000 for FY 2011 and funding for the one time cost of issuance fees estimated at $315,000 are included in the Fiscal Year 2010-11 Approved Hotel Tax 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 Hotel Occupancy Tax, Subordinate Lien Variable Rate Revenue Refunding Bonds, Series 2008 were approved by Council on July 24, 2008.
For More Information:	Art Alfaro, Treasurer, 974-7882
Boards and Commission Action:	
MBE / WBE:	
Related Items:	

Additional Backup Information

In 2008, the City issued Bonds for the purpose of refunding the previously issued 2005 variable rate obligations in order to split the structure into a Series A & Series B structure. A necessary component of any variable rate demand obligation (VRDO) is for the holders of such securities to be able to tender the securities for purchase at certain times. Upon being tendered, the VRDO is remarketed to and purchased by a new holder. In the event there are no buyers in the market for any tendered VRDOs, the purchase price for the tendered VRDO is paid by a third party bank pursuant to a liquidity facility. The City entered into a liquidity facility in the form of a Letter of Credit (LOC) with Dexia Credit Local (Dexia). The LOC with Dexia expires on August 14, 2011.

This council request, if approved, will allow the City to replace Dexia's LOC with two separate letters of credit (LOCs), each with an initial 3-year term, to be provided by JPMorgan and Bank of America (Banks) pursuant to their respective Letter of Credit and Reimbursement Agreement. The facility fee rate for the new LOCs is 110 basis points, which is higher than the current fee rate payable to Dexia of 70 basis points. With this higher fee, annual costs of the LOCs will increase to approximately $1.4 million in the first year, but will then decrease over the term of the LOCs as principal of the Bonds is paid down.

An LOC serves two functions: (1) to provide liquidity support as a purchaser of the Bonds in the event tendered Bonds can not be remarketed; and (2) to provide credit support to pay debt service on the Bonds. The City would be obligated to reimburse the Banks for all draws made on the LOCs.

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 twenty banks that had previously expressed interest in participating in the replacement of this LOC. The team of JPMorgan and Bank of America responded with a bid of 110 basis points for a 3 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 year bid of 110 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:

JPMorgan: $59,827,600 ($58,765,000 Principal + $1,062,600 Interest)
Bank of America: $59,827,600 ($58,765,000 Principal + $1,062,600 Interest)

Total not to exceed: $119,655,200 ($117,530,000 Principal + $2,125,200 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 $315,000 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

Chapman & Cutler – Liquidity Counsel
Moody's – Rating Agency
Standard & Poor's – Rating Agency
JPMorgan – Agent
Bank of America - Agent
State of Texas Attorney General

In connection with this transaction, the City will also enter into other agreements involving the Banks, the Paying Agent, and the Tender Agent for the Bonds.