

Browder, Leslie

From: Browder, Leslie
Sent: Wednesday, October 26, 2011 2:37 PM
To: Leffingwell, Lee
Cc: Ott, Marc; Edwards, Sue; Knodel, Jeff; Kennard, Karen; Smith, Sharon; Meszaros, Greg; Anders, David; Jennings, Bart; 'Dennis Waley'; Dransfield, Robert D.; Alfaro, Art; Guernsey, Greg
Subject: Update on upcoming bond sales

Mayor and Council,

As you are aware, we have been working with an underwriter, our financial advisor (Public Financial Management) and bond counsel to issue special assessment bonds to finance infrastructure in the Whisper Valley and Indian Hills public improvement districts, mainly associated with water/wastewater facilities. The districts were created in August 2010 after lengthy discussions dating back to 2007, as well as subsequent deliberations and actions by Council since 2008 as various milestones were reached. Our initial goal was to bring these bond sales to you for approval this past August, at the same time that we issue general obligation debt each year. We were not able to finalize the legal documents that accompany the issuance of debt within that timeframe. The necessary documents have now been completed, and we plan to bring them to you for approval in November. In addition to the issuance of special assessment bonds, Council will also adopt a service and assessment plan for each of the two PIDs, as well as levy the assessments themselves (like the process we already follow for our two downtown PIDs).

Each PID will have two series of bonds. One series will be repaid from the proceeds of cost reimbursement agreements executed between the water utility and the developer (these agreements were approved by Council in 2010). This bond series is expected to yield a low interest rate based on the favorable history of the water utility's cost reimbursement process with developers. The second series will be a more traditional PID issuance and will carry a higher interest rate, but blended together we expect a combined interest rate somewhere in the range of 6% to 7%. It is common with projects of this nature to refinance the debt at a lower rate after the infrastructure has been completed and a track record of progress has been established. The bonds have been structured to accommodate a future refinancing. Art Alfaro, our Treasurer, will monitor project and market conditions for the appropriate opportunity and timing. Neither series of bonds is secured by City revenues, neither ad valorem taxes (full faith and credit) nor water utility revenues.

As they always do, our financial advisor will walk you through the highlights of the transactions at the November 3rd Council meeting during the 2 pm "time certain" designated for bond sales. On the same date, we will also bring the annual issuance of water utility refunding bonds to you for approval.

I have met with the financing team to review the final financing structure, project controls and completed due diligence. The team has put together a solid plan that will help ensure that the infrastructure is completed in accordance with water utility standards. As a result of discussions with potential investors, the team has refined the control features over the last few months to include additional reserve accounts in the bond covenants and enhancements to the cost reimbursement agreements. I would like to acknowledge Sharon Smith (Law Department) and Bart Jennings (Austin Water) in particular for their hard work in this area.

The RCAs that will serve as back-up to the Council agenda will include additional information about the project's history, previous actions taken by Council related to the project, and draft ordinances. As is customary with debt transactions, final ordinances will be provided to Council as late back-up to reflect actual pricing.