A U S T I N C I T Y C O U N C I L

AGENDA

Recommendation for Council Action

Austin City Council	**Item ID**	19335	**Agenda Number**	<ITEM_OUTLINE>

Meeting Date:	11/8/2012	**Department:**	Treasury

Subject

Approve an ordinance authorizing (i) the replacement of the two separate Letter of Credit and Reimbursement Agreements between the City of Austin and JPMorgan and Bank of America related to $112,960,000 in currently outstanding City of Austin, Texas, Hotel Occupancy Tax, Subordinate Lien Variable Rate Revenue Refunding Bonds, Series 2008A&B, with a single Letter of Credit and Reimbursement Agreement issued by JPMorgan, and (ii) all necessary related document actions, and fees.

Amount and Source of Funding

Funding for the Letter of Credit fees, estimated at $1,210,960 for FY2013 as well as the one time cost of issuance is included in the Fiscal Year 2012-13 Approved Operating Budget of the Hotel Tax Revenue Bond Redemption Fund.

Fiscal Note

Purchasing Language:	
Prior Council Action:	On July 24, 2008, the City Council approved the City of Austin, Texas Hotel Occupancy Tax, Subordinate Lien Variable Rate Revenue Refunding Bonds, Series 2008 selecting Dexia Credit Local to provide the related liquidity facility in the form of a Letter of Credit (LOC) expiring August 14, 2011. On June 23, 2011, the City Council approved the execution of the LOC and Reimbursement Agreements with JPMorgan and Bank of America, replacing Dexia's LOC.
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 purposed 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 liquidity facility is provided in the form of a Letter of Credit (LOC). The LOC serves two functions: First, to provide liquidity support for the bonds in the event tendered bonds can not be remarketed; and secondly, as a guarantor for the bonds should the City be unable to make debt service payments. The City would be obligated to reimburse the LOC provider(s) for all draws made on the LOCs.

Council previously approved two separate Letters of Credit with JPMorgan and Bank of America, each with an original principal amount of $58,765,000. The LOCs expire on August 14, 2014 and contain a facility fee rate of 110 basis points on the outstanding balance. The current outstanding balance is $112,960,000.

On June 21, 2012, Bank of America was downgraded to "A2" (long-term rating) and "P-2" (short-term rating) by Moody's Investors Service. In order to attract the broadest universe of VRDO buyers and the most attractive borrowing rates, the bank short-term rating needs to be in the highest rating category. JPMorgan has a short-term rating of "P-1," which is the highest category. Therefore, it is recommended that the Bank of America Letter of Credit be terminated and JPMorgan's commitment be increased. This will allow the City to continue to sell the VRDOs at the lowest possible borrowing rates.

In addition to the ongoing LOC fees, there will be certain one-time cost of issuance fees associated with the execution of this proposed action. The estimated total for the one time fees is $125,000 and will be paid to the following entities acting in the capacity noted: Public Financial Management – Financial Advisor; Bracewell & Giuliani LLP – Bond Counsel; McCall, Parkhurst & Horton – Disclosure Counsel; Andrews Kurth – Bank Counsel; Moody's Investor Services, Fitch Ratings, and Standard & Poor's – Rating Agencies; and State of Texas – Attorney General.