

A G E N D A



Recommendation for Council Action

Austin City Council	Item ID	31899	Agenda Number	45.
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Meeting Date:	4/17/2014	Department:	Treasury
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Subject

Approve an ordinance authorizing a Letter of Credit and Reimbursement Agreement between the City and Sumitomo Mitsui Banking Corporation related to the City's Airport System Revenue Refunding Bonds, Series 2005, and approving and authorizing all related documents, agreements, and fees.

Amount and Source of Funding

Funding for the Letter of Credit fee, estimated at \$406,476 for FY 2014 and funding for the one-time cost of issuance were included in the Fiscal Year 2013-14 Approved Operating Budget of the Airport 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 Airport System Revenue Refunding Bonds, Series 2005 were approved by Council on August 4, 2005.
For More Information:	Art Alfaro, Treasurer, 974-7882
Boards and Commission Action:	
MBE / WBE:	
Related Items:	

Additional Backup Information

-----REQUIRED AUTHORIZATION-----

In 2005, the City entered into an interest rate management agreement to refund part of its outstanding Airport System debt from fixed rate bonds to variable rate obligations. A necessary component of any variable rate demand bonds (VRDB) 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 VRDB was issued. The 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 VRDB, and second, as guarantor for the VRDB were the City unable to make payments for the debt service on the VRDB.

On June 21, 2011, the Dexia LOC expired and the City entered into a new LOC with a team of three banks (JPMorgan, KBC Bank and Royal Bank of Canada) for a period of 3 years with an expiration date of June 21, 2014.

On December 8, 2011, Standard and Poor's downgraded KBC Bank to an 'A-' long-term rating and 'A-2' short-term rating. The 'A-2' short-term rating reduced the number of investors available to purchase the VRDB, potentially increasing the borrowing cost associated with the KBC Bank-supported portion of the outstanding VRDB. State Street, with a short-term rating by Standard and Poor's of 'A-1' was selected to replace KBC Bank by Council action in April 2013.

This Council request, if approved, will allow the City of Austin to replace the expiring LOC with one from Sumitomo Mitsui Banking Corporation (SMBC). There is a bond insurance policy from Assured Guaranty Municipal Corporation that will stay in place. If Council approves, the City will enter into a Letter of Credit and Reimbursement Agreement with SMBC in an amount equal to the current outstanding principal of \$214,825,000 plus interest. The facility fee rate for the new LOC is proposed at 62 basis points, which is lower than the current fee rate of 135 basis points for the JPMorgan and RBC portions and 100 basis points for the State Street portion. With this lower fee, annual costs will decrease by approximately \$1.58 million in the first full year of the LOC, and will continue to decrease over the term as principal of the bonds is paid down through the proposed expiration date in October 2018.

Nine banks that had previously expressed interest in participating in the replacement of the expiring LOCs were solicited. Seven banks responded. The City, in conjunction with the City's Financial Advisor, Public Financial Management, negotiated the terms of the transaction. Bids were submitted for one year, two year, three year, and four year terms and it is staff's recommendation that the City accept the four year bid of 62 basis points in order to avoid renewal risks and eliminate the administrative costs associated with a renewal. To accommodate a financial statement reporting requirement, SMBC has agreed to an expiration date in October 2018, which is slightly more than four years.

In addition to the ongoing LOC fees, there will be certain one-time costs associated with execution of this transaction. The estimated total for these fees is \$150,000 and will be paid to the following entities acting in the capacity noted:

FSA/Assured Guaranty Municipal Corporation – Insurer
Chapman and Cutler – Bank Domestic Counsel
McCall, Parkhurst & Horton – City Bond Counsel
Norton Rose Fulbright – City Disclosure Counsel
Public Financial Management – Financial Advisor
Standard & Poor's – Rating Agency
State of Texas Attorney General