

A G E N D A



Recommendation for Council Action

Austin City Council	Item ID	41509	Agenda Number	13.
---------------------	---------	-------	---------------	-----

Meeting Date:	3/12/2015	Department:	Treasury
---------------	-----------	-------------	----------

Subject

Approve an ordinance authorizing a letter of credit and reimbursement agreement between the City and Citibank, National Association, related to the City's Water and Wastewater System Variable Rate Revenue Refunding Bonds, Series 2008, and approving and authorizing all related documents, agreements, and fees.

Amount and Source of Funding

Funding for the Letter of Credit facility fee, estimated at \$142,362 for FY2015 and funding for the one-time costs of issuance estimated at \$300,000 was included in the Fiscal Year 2014-15 Approved Operating Budget of the 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 on March 6, 2008.
For More Information:	Art Alfaro, City Treasurer, 512-974-7882
Boards and Commission Action:	
MBE / WBE:	
Related Items:	

Additional Backup Information

This request for council action is seeking approval to replace an expiring letter of credit with a new letter of credit to back certain bonds the City has issued. The letter of credit is necessary to meet the requirements of the bond holders, as reflected in the ordinance authorizing these bonds. Council must take action to approve the new letter of credit in time for the City to have it in place before the current letter of credit expires in early May of 2015. Approval on March 12th is required so we can meet this timeline. The City will save approximately \$2 million in fees over the term of this new letter of credit.

The City uses bonds financed with the revenues of the City's utilities for capital improvements for the utility systems. These bonds are not paid back from property taxes. When interest rates are low, the City refinances, or "refunds", bonds to save the City, and rate payers, on interest costs. In 2008, the City refinanced certain Combined Utility System Revenue Refunding Bonds, as well as Water and Wastewater System Revenue Refunding Bonds. The new (refunding) bonds are known as Water and Wastewater System Variable Rate Revenue Refunding Bonds, Series 2008.

The refunding bonds were issued as variable rate demand bonds, as opposed to fixed rate bonds. Variable rate bonds are bonds with long-dated maturities that have short-term demand features. Additionally, with variable rate bonds, the coupon rate used to calculate debt service interest payments to bond holders is variable, and periodically “resets” at some interval, in this case, weekly. With fixed rate bonds, the coupon used to calculate debt service interest is set (“fixed”) at the time the bond transactions closes. This is similar in concept to refinancing a house, where the note on the house has a variable rate, and options for paying it off early.

A required component when any variable rate bonds are issued is a liquidity facility. A liquidity facility is a financial mechanism to support or “back” the bonds to make sure they will be purchased, even if there is not a buyer on the commercial market as the bonds “reset” weekly. It serves to guarantee the bonds should the City ever be unable to make payments on its debt service. Bond holders have certain quality requirements for liquidity facilities. The City’s variable rate bonds’ liquidity facility is accomplished through a Letter of Credit and Reimbursement Agreement (LOC). The City pays a fee to have the LOC in place.

The City entered into a LOC with Dexia Credit Local Bank (Dexia) at the time the City issued the variable rate bonds. The rate the City paid Dexia was 35 basis points (or 0.35%). In 2011, the Dexia LOC expired, and the City entered into a new LOC with a team of two banks, Sumitomo Mitsui Banking Corporation (SMBC) and The Bank of Tokyo Mitsubishi, with a rate of 85 basis points and an expiration date of May 8, 2015. While this 85 basis point fee was higher than the original LOC with Dexia, it was significantly lower than LOC fees being charged at the height of the downturn in 2009 and 2010, when fees were as high as 175-200 basis points. Fees spiked due to increased demand for these liquidity facilities and diminishing number of banks willing to provide them. As the economic recovery has strengthened, fees for LOCs have decreased.

To replace the expiring LOC, nine banks were solicited, and seven responded. The City, in conjunction with the City’s Financial Advisor, Public Financial Management, negotiated the terms of the agreement. Bids were received for one to five year terms, as well as a ten year term, and it is staff’s recommendation that the City accept the three year bid of 28 basis points from Citibank, N.A., who has agreed to use this rate with an expiration date of October 15, 2018. The fee for this replacement LOC is 28 basis points.

If Council approves, the bank’s commitment amount will be \$117,330,579, consisting of \$115,695,000 in currently outstanding principal and \$1,635,579 in interest. The fees that they will charge for this commitment are to be paid quarterly, and are calculated as follows: (currently outstanding principal + interest) x (fee rate of 28 basis points) x (number of days)/360. For the current fiscal year, the facility fee, based on the formula above, will be approximately \$140,000. This is significantly lower than the approximately \$426,000 that would have been charged at the current 85 basis point rate. For the life of the new agreement, the fees charged by Citibank will be just over \$1.1 million, a savings of over \$2.2 million when compared to the expiring LOC fee. In addition to the ongoing LOC fees, there are estimated one-time costs of \$300,000 associated with execution of this agreement, and will be paid to the following entities acting in the capacity noted:

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