

AGENDA

**Recommendation for Council Action****AUSTIN CITY COUNCIL****Regular Meeting: October 4, 2018**Item Number: **031****Treasury Office**

Approve an ordinance authorizing a Letter of Credit and Reimbursement Agreement between the City and Barclays Bank PLC., 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.

Lead Department	Treasury
Fiscal Note	This item has not fiscal impact.
Prior Council Action	The City of Austin, Texas Water & Wastewater Variable Rate Revenue Refunding Bonds, Series 2008 on March 6, 2008.
For More Information	Belinda Weaver, Interim City Treasurer, 512-974-7885.

Additional Backup Information:

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, because it 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 deal closes.

A necessary component when variable rate bonds are issued is a liquidity facility. The City’s variable rate bonds’ liquidity facility is accomplished through a Letter of Credit and Reimbursement Agreement (LOC). 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 variable rate bonds, and second, as guarantor for the variable rate debt should the City be unable to make payments for the debt service.

In 2011, the original 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 (BTMU), with a rate of 85 basis points and an expiration date of May 8, 2015. Upon the expiration date of the SMBC and BTMU LOC, the City entered into a new agreement with Citibank, N.A at a rate of 28 basis points with an expiration of October 15, 2018.

To replace the expiring LOC, thirteen banks were solicited, and six responded. The City, in conjunction with the City’s Financial Advisor, PFM Financial Advisors LLC negotiated the terms of the transaction. Bids were received for one to five year terms and it is staff’s recommendation that the City accept the four year bid of 25 basis points from Barclay’s Bank PLC., who has agreed to use this rate with an expiration date of October 15, 2022.

If Council approves, the bank’s commitment amount will be \$107,427,370, consisting of \$105,690,000 in currently outstanding principal and \$1,737,370 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 25 basis points) x (number of days)/360. For the current fiscal year, the facility fee, based on the formula above, will be approximately \$258,148. This is lower than the approximately \$289,125 that would have been charged at the current 28 basis point rate. For the life of the new agreement, the facility fees charged by Barclays Bank PLC will be just under \$983,000, a savings of over \$118,000 when compared to the expiring LOC facility fee rate.

In addition to the ongoing LOC fees, there will be one-time costs associated with execution of this agreement. The estimated total for these fees is \$300,000 and will be paid to the following entities acting in the capacity noted:

PFM Financial Advisors LLC - Financial Advisor

McCall, Parkhurst & Horton L.L.P - Bond Counsel

Bracewell LLP - Disclosure Counsel

Chapman and Cutler LLP - Liquidity Counsel

Moody’s - Rating Agency

Standard & Poor’s - Rating Agency

Fitch - Rating Agency

State of Texas Attorney General