AGENDA MEMORANDUM
Future Item for the City Council Meeting of June 26, 2012
Action Item for the City Council Meeting of July 10, 2012

DATE: July 10, 2012

TO: Ronald L. Olson, City Manager

FROM: Constance P. Sanchez, Director of Financial Services
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Issuance of New Money and Refunding Utility System Junior Lien Revenue Bonds

CAPTION:

A. Motion authorizing the appointment of M. E. Allison, & Co., as Financial Advisor for the City of Corpus Christi, Texas Utility System Junior Lien Revenue and Refunding Bonds, Series 2012" in an amount not to exceed $170,000,000.

B. Ordinance authorizing the issuance of "City of Corpus Christi, Texas Utility System Junior Lien Revenue and Refunding Bonds, Series 2012" in an amount not to exceed $170,000,000; making provisions for the payment and security thereof by a junior and inferior lien on and pledge of the net revenues of the City's Utility System; prescribing the form, terms, conditions, and resolving other matters incident and related to the issuance, sale and delivery of the bonds; including the approval and distribution of an Official Statement pertaining thereto; authorizing the execution of a paying agent/registrar agreement, an escrow agreement, and a purchase contract; complying with the requirements imposed by the letter of representations previously executed with the depository trust company; delegating the authority to the Mayor and certain members of the City staff to execute certain documents relating to the sale of the bonds; and providing an effective date.

PURPOSE:

The City has an opportunity to refund up to five series of utility revenue bonds. Additionally, the City would like to issue $60,000,000 of "new utility money" to reimburse itself for costs incurred in relation to the fiscal year 2012 Capital Improvement Program

(CIP). This agenda item would allow for the City to take both actions utilizing an alternate borrowing method: subordinate or junior lien debt.

<u>BACKGROUND AND FINDINGS</u>:

<u>Part A:</u>

Issuance of bonds requires utilization of a financing team which is made up of three parts: the financial advisor, bond counsel, and the underwriting syndicate. Part A of this agenda item authorizes the appointment of M. E. Allison & Co., Inc. as financial advisor for this transaction. See Exhibit A for the Financial Advisor's fee schedule.

Fulbright & Jaworski L.L.P. is currently under contract with the City to serve as the City's bond counsel and will serve as the second part of our financing team. The third part of the financing team is the underwriters, and selection of the syndicate of underwriters from the City's pool of approved underwriters is being recommended for delegation to the Mayor, City Manager, and Assistant City Manager in Part B of this agenda item.

<u>Part B:</u>
At the present time, there is an opportunity to refund 4 series of bonds (1999A, 2002, 2004, and 2005A Utility System Revenue Improvement Bonds). The net present value savings equates to approximately 6.9% or approximately $7,440,000 on $108,435,000 of outstanding bonds. This amount will fluctuate based on the conditions in the market at time of pricing. Additionally, the City would like to issue $60,000,000 of new money to reimburse itself for costs incurred in relation to the fiscal year 2012 Capital Improvement Program (CIP).

The City currently maintains a senior lien revenue financing system in support of its combined utility system (the "System"). Issuance of additional senior lien System debt requires compliance with stringent bond covenants that are, in limited instances, no longer required in the capital markets by purchasers of highly rated credits such as the System. For example, the issuance of additional senior lien System debt requires the immediate funding of a debt service reserve fund with respect to such additional debt. Historically, the City has purchased debt service reserve fund surety policies from municipal bond insurance companies to satisfy this requirement; however, as a result of the deterioration in the municipal bond insurer industry, there exists no bond insurer that meets the AAA-credit rating requirements applicable to the issuer of such a policy, as required by the City's outstanding senior lien System bond ordinances. This result requires that the City fund such debt service reserve requirement with cash, being either cash on hand or through the issuance of an additional amount of bonds, which, in either case, negates the savings resultant from the refunding identified above and increases the costs of borrowing for new money issues.

Given recent declines in interest rates available in the capital markets, the credit spread (being the differential in interest rates) between senior lien and subordinate lien System debt has significantly narrowed, so much so that the costs of cash-funding a reserve fund at the senior lien level are greater than the costs of a higher interest rate applicable to a subordinated series of debt. This circumstance presents the City with an opportunity to establish a junior lien System financing structure, whereby the City can "modernize" the covenants applicable to this debt while at the same time realizing (i) debt service savings by refunding and "subordinating" certain of its senior lien System bonds and (ii) lower borrowing costs for new money issues. Though the City is "modernizing" multiple aspects of its System debt covenants (all to the benefit of the City), an example is the suspension of the City's requirement to fund a debt service reserve applicable to this new junior lien System debt until such time (if at all) that debt service coverage (being the ratio of available System revenues to debt service on outstanding System debt) falls below negotiated levels for an extended period of time.

The establishment of this new financing structure provides the City with greater flexibility in the management of its System debt portfolio. Prospectively, the City can choose to issue System debt at either the senior or junior lien level. As evidenced by recent developments in the marketplace, future circumstance will dictate whether an issuance of additional debt at the System's senior lien level, with its more stringent requirements, or at the junior lien level is more advantageous to the City. This action, in addition to the benefits described above, will provide the City with the flexibility to act in a manner that is most beneficial, given then-existing market conditions balanced against the needs of the City and its System.

ALTERNATIVES: n/a

OTHER CONSIDERATIONS: n/a

FINANCIAL IMPACT:

□Not Applicable X Operating Expense □ Revenue □ CIP

FISCAL YEAR:	Project to Date Exp. (CIP Only)	Current Year	Future Years	TOTALS
Budget - Debt Payments	-	-	$715,441,000	$ 715,441,000
Encumbered/Expended amount of (date)	-	-	-	-
This item	-		$ 706,506,393	$ 706,506,393
BALANCE	-	-	$8,934,607	$ 8,934,607
FUND(S): Utility Debt Service Funds				

COMMENTS:

The $8,934,607 noted above represents savings in debt payments by refunding applicable System revenue bonds for the remaining life of the bonds – through 2040. This represents a net present value savings of approximately $7,440,000.

RECOMMENDATION:

Staff recommends approval of the motion and ordinance as presented.

CONFORMITY TO CITY POLICY:

This item conforms to City policy.

EMERGENCY / NON-EMERGENCY:

Issuance of municipal obligations are exempted from the City's charter provision regarding dual reading and/or emergency adoption provisions pursuant to the provisions of Section 1201.028, as amended, Texas Government Code.

DEPARTMENTAL CLEARANCES:

- Bond Counsel
- Legal Department

LIST OF SUPPORTING DOCUMENTS:

Exhibit A – Financial Advisor Fee Schedule
Ordinance

cc: Lisa Aguilar, Assistant City Attorney
Eddie Houlihan, Assistant Director of Management and Budget
Margie C. Rose, Assistant City Manager
Oscar Martinez, Assistant City Manager