

MOTION

BUDGET & FINANCE

The City's Wastewater System debt financing program includes fixed-rate and variable rate long term debt, as well as short term commercial paper. During late January, the bond insurers for the variable-rate debt for the Wastewater System program were downgraded by the credit rating agencies from AAA to AA (FGIC) and A (XLCA), followed by subsequent downgrades to BBB (FGIC) and BB (XLCA) by the end of March. The downgrades are the result of bond insurer investments in sub-prime mortgage loans, causing large losses.

The downgrading of these bond insurers has negatively affected the price at which this portion of the Wastewater System program can borrow funds. During this volatile period, the CAO has been able to get the credit rating of our variable-rate debt upgraded from AA- to AA (senior debt) and from A+ to AA- (subordinate debt), based on the underlying ratings of these bonds and the historical payment performance of debt service by the City. The CAO advises that due to the downgraded insurance for these bonds, the City's cost of borrowing has dramatically increased up to 75 percent over the same period a year ago. Therefore, it is imperative for the City to refund the outstanding 2001 and 2006 variable-rate bonds, backed by a liquidity facility and insurance policy, and issue 2008 bonds with a Letter of Credit (LOC) in their place.

The CAO recently issued a RFP for a LOC, to determine if there would be any banks willing to issue an LOC to the City for this purpose, in view of the tremendous market demand from many other cities in similar circumstances. Through this competitive process, the CAO has identified two LOC providers, ScotiaBank and Bank of America.

The CAO further advises that if the City does not take action it will pay an estimated \$21.4 million in debt service in 2008-09, while if the variable rate debt is refunded with an LOC, as proposed by the CAO, the 2008-09 debt service will be \$11.6 million.

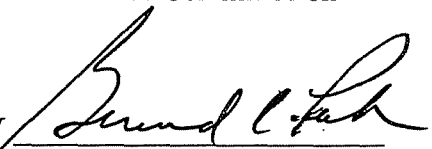
The CAO strongly recommends that the Council take expedited action to authorize the refunding of the 2001 and 2006 variable-rate debt for the Wastewater system, inasmuch as these banks have guaranteed their rates for the LOC for only 30 days.

I THEREFORE MOVE that the Council:

1. Authorize the City Administrative Officer, with assistance of the City Attorney, to proceed to develop, and submit to the Council documents necessary for the City to issue bonds not to exceed \$604 million to refund the 2001 and 2006 Variable-Rate Wastewater bonds, to be enhanced by letter of credit through ScotiaBank and Bank of America.
2. Authorize the City Administrative Officer to engage the financing team consisting of the following entities, all previously selected through a competitive process and approved by the Council, to develop this financing program: Public Resources Advisory Group (Financial Advisor); Sidley Austin and Hawkins Delafield and Woods (Bond Counsel); U.S. Bank (Trustee); Bank of American and ScotiaBank (LOC Providers), and JP Morgan, Lehman Brothers, UBS, Stone & Youngberg, Backstrom McMarley Berry, Banc of America, Loop Capitol and Jackson Securities (Remarketing Agents).
3. Instruct the City Clerk to schedule this matter for consideration by the Budget and Finance Committee on April 21, 2008 and agendize for Council consideration on April 23, 2008.

08-0951

PRESENTED BY



BERNARD C. PARKS
Councilmember, 8th District

SECONDED BY

