



## Legislation Text

---

**File #:** 070994., **Version:** 0

---

### Refunding of Variable Rate Subordinated Utilities System Revenue Bonds, 2002 Series A and 2002 Series B (NB)

The 2002 Series A and B Bonds were issued as variable rate debt in order to refund a prior bond issue and to finance certain of the Utility's capital projects. These Bonds were issued in an "auction rate mode," meaning that the interest rate is reset periodically pursuant to an auction process.

During the past several weeks, many investors have been attempting to sell their holdings in auction rate securities but there has been insufficient demand on the part of other investors to purchase such holdings, which has resulted in many auction rate programs (including the 2002 Series A and B Bonds) experiencing failed auctions. As a result, the interest rates on auction rate bonds (including the 2002 Series A and B Bonds) have increased substantially from historical levels. While the auction rate market had functioned well for roughly 20 years, most market participants feel that the auction mechanism may never return to its position as the lowest cost variable-rate debt alternative for municipal issuers.

On February 25, 2008, the City Commission authorized (1) the refunding of the 2002 Series A and B Bonds through the issuance of fixed-rate bonds; and (2) the termination of a floating-to-fixed interest rate swap entered into with Merrill Lynch Capital Services, Inc. in connection with the issuance of the 2002 Series A Bonds (the 2002 Series A Swap Transaction).

At that time, long-term interest rates generally were at or below their long-term averages, so Utilities staff, in consultation with our Financial Advisor, determined that it was appropriate to convert the 2002 Series A and B Bonds to fixed-rate debt through the issuance of fixed-rate refunding bonds, in order to prevent the 2002 Series A and B Bonds from experiencing further failed auctions in the future and, accordingly, to bring certainty to the Utility's future debt service payments.

However, over the past week, long-term, tax-exempt interest rates continued to rise substantially. As a result, it no longer is economic to refund the 2002 Series A and B Bonds with fixed-rate debt. Therefore, Utilities staff, in consultation with our Financial Advisor, now recommends that the City Commission approve the refunding of the 2002 Series A and B Bonds through the issuance of commercial paper notes, which is a different form of variable rate debt that is not currently experiencing the same problems as auction rate securities.

Since the early 1980's, the Utility has maintained in effect a tax-exempt commercial paper program that currently permits the Utility, upon authorization of the City Commission, to issue up to \$85,000,000 in aggregate principal amount of Series C CP Notes at any one time outstanding. While no amounts currently are outstanding under the Series C CP Note program, since all of the documentation for that program already is in place, upon approval by the City Commission, staff will be able to move quickly to issue the Series C CP Notes and refund the 2002 Series A and B Bonds and thereby achieve significant debt service savings for our ratepayers. In addition, since we would be refunding the variable-rate 2002 Series A and B Bonds with variable-rate commercial paper notes, it is not necessary to terminate the 2002 Series A Swap Transaction at this time, which will allow the City to avoid making a termination payment.

If, at some point in the future, long-term interest rates decline to or below their long-term averages, staff may come back to the City Commission for authorization to refund the Series C CP Notes with fixed-rate debt and terminate the 2002 Series A Swap Transaction, in order to bring certainty to the Utility's future debt service payments.

The Clerk of the Commission, the General Manger or other Authorized Officers of the City (as defined in the Utilities Bond Resolution) may be required to take certain other actions and hire certain other professionals to proceed with the issuance of the Series C CP Notes. Therefore, we recommend that these officials be authorized to take such other actions that may be necessary or desirable to proceed with the issuance of the Series C CP Notes in accordance with this City Commission authorization.

The City Commission:

1. Approve the refunding of the City's Variable Rate Subordinated Utilities System Revenue Bonds, 2002 Series A and 2002 Series B (2002 Series A and B Bonds), including payment of the Utility's costs in connection therewith, through the issuance of not to exceed \$63,000,000 in aggregate principal amount of the City's tax-exempt Utilities System Commercial Paper Notes, Series C (Series C CP Notes).

2. Authorize the Clerk of the Commission, the General Manager and other Authorized Officers to execute such documents as may be necessary to proceed with the transaction authorized above, subject to approval of the City Attorney as to form and legality, and to take such other actions as may be necessary or advisable to proceed with the issuance of the Series C CP Notes in accordance with this City Commission authorization.

Refunding the 2002 Series A and B Bonds with variable-rate Series C CP Notes will secure favorable interest rates for our ratepayers, while allowing us to refund Bonds that are experiencing volatility and uncertainty.

Prepared by Jennifer L. Hunt, Utilities Chief Financial Officer

Reviewed by Raymond O. Manasco, Jr., Utilities Attorney

Submitted by Robert E. Hunzinger, General Manager