CITY OF HOUSTON

Finance Department

Interoffice

Correspondence

To:	Budget and Fiscal Affairs Committee	**From:**	Michelle Mitchell, Director Finance Department
		Date:	March 9, 2010
		Subject:	**Combined Utility System Series 2004B First Lien Revenue Refunding Bonds Liquidity Replacement**

Michelle Mitchell

The purpose of this memorandum is to summarize upcoming transactions to support the $653 million Combined Utility System ("CUS") Series 2004B First Lien Revenue Refunding Bonds ("Series 2004B"). A specific Request for Council Action ("RCA") is expected to be brought before Council later in March.

On April 8, 2008 the CUS converted the Series 2004B Bonds, which were originally issued as auction rate securities, into variable rate demand bonds ("VRDBs"). VRDBs are long term bonds that are remarketed weekly at short term interest rates. The VRDBs have provided a cost-effective method of financing a portion of the CUS Capital Improvement Program ("CIP"). In order to be marketable, the VRDBs require a liquidity facility provided by a highly rated bank. The current liquidity facilities that support these bonds will expire April 8, 2010.

The attached exhibit lists each sub-series of the Series 2004B Bonds and the fees currently being charged. Also shown in the exhibit are the proposed banks with which liquidity agreements are currently being negotiated. While negotiations are in progress, the Finance Working Group ("FWG") is also pursuing options to include some portion of the Series 2004B Bonds in the CUS Series 2010B Bonds. The Series 2010B Bonds transaction was presented to Council on March 3rd and included this possibility.

The FWG recommends entering into six new liquidity agreements with highly rated banks to support the Series 2004B Bonds. The specific banks selected for this transaction will be presented to Council through an RCA that is forthcoming.

Recommendation

The FWG recommends approval of this transaction.

EXIHIBIT A

Series 2004B Sub-series	Current Bank	Current Fee	Sub-series after Liquidity Replacement *	Proposed Bank *
$225,000,000 B-1	Jointly: Bank of America (25%) Bank of New York (25%) Dexia (34.7%) State Street (15.3%)	36.5 basis points	$225,000,000 B-1	Bank of America
$135,550,000 B-2			$100,000,000 B-2	State Street Bank
$75,000,000 B-3			$75,000,000 B-3	Bank of America
$75,000,000 B-4			$75,000,000 B-4	JP Morgan Chase
$142,775,000 B-5			$100,000,000 B-5	Lloyd's TSB Bank PLLC
$35,550,000 B-2 $42,775,000 B-5			$78,325,000 B-6	Scotia

* The FWG is still negotiating the liquidity agreements and therefore the specific banks and sub-series are subject to change. A final proposal will be presented in the Request for Council Action.