



# CITY OF HOUSTON

Finance Department

## Interoffice

Correspondence

**To:** Budget and Fiscal Affairs Committee

**From:** Kelly Dowe, Director  
Finance Department

**Date:** August 9, 2011

**CC:**

**Subject: Combined Utility System  
Series 2008D-1 Variable Rate  
Demand Bonds**

The Combined Utility System ("CUS") has \$132 million of variable rate demand bonds ("VRDBs") Series 2008D-1 that become convertible from taxable to tax-exempt on December 3, 2012. The nature of VRDBs requires a liquidity facility be provided by a highly rated bank. The current liquidity facility that supports these bonds is Dexia. The VRDBs have provided a cost-effective method of financing a portion of the CUS Capital Improvement Program ("CIP").

On June, 8, 2011, Standard & Poor's announced that all U.S. Public Finance issues backed by Dexia Credit Local liquidity were to be placed on credit watch, with negative implications. Market acceptance for Dexia-backed paper has weakened due to the downgrade risk. As we continue to work on the best course of action, to help alleviate and reduce the exposure to Dexia, we are proposing replacement of the Dexia bank facility with another bank.

### **Recommendation**

The Finance Working Group ("FWG") currently believes that finding another bank to provide liquidity may be the best course of action. To pursue this possibility our financial advisor is currently soliciting indications of interest. Should a beneficial agreement present itself the FWG intends on requesting council action as soon as possible.