Meeting Date: 9/23/08

ACTION	TYPE OF ITEM
☐ Approved Recommendation	■ Info/Consent
☐ Ord. No(s). _____	☐ Report
☐ Res. No(s). _____	☐ Public Hearing (Info/consent)
☐ Other _____	☐ Other _____

Prepared By: Carrie Sabatini Agenda Item No. I-8

Reviewed By: City Manager City Attorney Finance Other

DATE: September 11, 2008

TO: Housing Authority Board of Commissioners

FROM: Ernest Whitaker, Interim Housing Director
Housing Authority

SUBJECT: **Authorization for Housing Authority to Establish a Letter of Credit**

RECOMMENDATION

That the Board of Commissioners of the Housing Authority of the City of Oxnard adopt a resolution authorizing the establishment of a letter of credit.

DISCUSSION

On May 20, 2003 the Board of Commissioners authorized the issuance of $5,820,000 in Capital Fund Revenue bonds collateralized by the Capital Fund Program ("CFP") grant funds received annually from the Department of Housing and Urban Development (HUD). Bonds were issued on April 26, 2004 with a rating by Standard & Poors of "AA." The "AA" rating was based upon several factors, one of which was the debt-service coverage ratio of greater than 3. In other words, there was more than three times the total debt service payment in funding from the CFP grant each year.

CFP grants, also known as modernization grants, are funded based upon the number of public housing units managed by the housing authority. In recent years, public housing funding has been steadily decreasing through declining Congressional appropriations. That decrease in addition to the proposed demolition and disposition of the 260 public housing units in the Courts project, and subsequent CFP grant decrease for the loss of units, will result in a lower debt service coverage ratio.

Standard & Poors evaluates and monitors the Capital Fund Revenue bonds annually. As part of their review they test the debt service coverage ratio to ensure it is at least 2.5 times coverage in the next 3 years, as well as at least 1 times coverage for the remaining life of the bond assuming a 4% decrease in Congressional funding for the life of the bond. If that analysis reveals that the debt-service ratio falls below the threshold at any time, Standard & Poors will consider lowering the rating of the bond.

In the case of the Oxnard Housing Authority bonds, with the projected loss of one-third of the CFP grant funding due to the loss of the Courts units, Standard & Poors has placed a "negative" outlook on the bonds, but once the units are actually taken offline the bond rating would decline. In order to prevent the rating decline, staff has worked closely with HUD, Standard & Poors, our bank, and our financial consultant to understand what the best option is to maintain the existing rating. It has been determined by all parties the best, most feasible option, with the least amount of financial impact to the Housing Authority is to obtain a letter of credit pledged to Wells Fargo Bank, bond trustee, for the benefit of the bondholders as additional security for the bonds. This letter of credit would be considered by Standard & Poors in conjunction with their threshold analysis for debt-service coverage ratios.

Staff recommends we establish this letter of credit to prevent the possible downgrade of the bond rating and prevent any negative impact such a downgrade may have on future bond issuances. The letter of credit necessary would be $100,000 and would be secured by a certificate of deposit with Bank of America.

FINANCIAL IMPACT

The Housing Authority would secure the letter of credit with a $100,000 certificate of deposit from the Central Fund reserves and incur minimal charges to establish and maintain the letter of credit.

Attachment: Resolution

HOUSING AUTHORITY OF THE CITY OF OXNARD

RESOLUTION NO. _____

A RESOLUTION OF THE HOUSING AUTHORITY OF THE CITY OF OXNARD AUTHORIZING THE ESTABLISHMENT OF A LETTER OF CREDIT

WHEREAS, the Housing Authority is a borrower under the Capital Fund Financing Program and has issued Capital Fund Revenue bonds; and

WHEREAS, the bonds in the amount of $5,820,000 are collateralized by Capital Fund provided yearly by the Department of Housing and Urban Development ("HUD") to the Housing Authority; and

WHEREAS, the Housing Authority wishes to maintain the existing bond rating of AA on said bonds; and

WHEREAS, the Housing Authority plans to dispose and demolish 260 public housing units under the Las Cortes project; and

WHEREAS, disposal of 260 units will decrease the Capital Funds granted by HUD by approximately one-third; and

WHEREAS, as a result of losing grant funding, a downgrade in the bond rating may result; and

WHEREAS, the bond rating agency believes a letter of credit to the bond trustee, on behalf of the bondholders, will secure the existing bond rating;

NOW, THEREFORE, the Commissioners of the Housing Authority of the City of Oxnard hereby resolve that the Housing Authority Director is authorized to:

1.) Execute an Application for a Letter of Credit in the sum of $100,000 to be issued by Bank of America, N.A. ("Bank") thereby obligating the Housing Authority to reimburse Bank for any draws made under such letter of credit issued by Bank (the "Obligations"); and
2.) In connection with the Application for the Letter of Credit, to make and execute such security agreements, pledge agreements assignments and any other documents securing payment of the Obligations; and
3.) To act in the name of the Housing Authority in connections with any matters under this resolution irrevocably until Bank is notified in writing of the revocation of such authority; and shall have acknowledged in writing receipt of such notification.

PASSED AND ADOPTED THIS _____ day of _____, 2008, by the following vote:

AYES:

NOES:

ABSENT:

_____
Dr. Thomas E. Holden, Chairman

ATTEST:

Daniel Martinez, Secretary Designate

APPROVED AS TO FORM:

for

Alan Holmberg, Acting General Counsel 9.15.08