



Thursday, March 22, 2007

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**Treasury Office  
RECOMMENDATION FOR COUNCIL ACTION**

**ITEM No 27**

**Subject** Approve an ordinance authorizing the extension of the Letter of Credit and Reimbursement Agreement between the City and JPMorgan relating to the \$350 000 000 City of Austin Texas Combined Utility Systems Commercial Paper Notes Series A program and the approval of all related documents

**Amount and Source of Funding** The \$794 800 Letter of Credit fee will be included in the Fiscal Year 2007 2008 Proposed Operating Budget of the Austin Water Utility and Electric Utility Department

**Fiscal Note** There is no unanticipated fiscal impact A fiscal note is not required

**Additional Backup  
Material**

(click to open)

**D DRAFT\_BOND\_COUNSEL  
ORDINANCE**

**For More Information** Art Alfaro Treasurer 974 7882

**Prior Council Action** On March 23 2004 the City Council approved the execution of a Reimbursement Agreement for the issuance of a Credit Facility to be provided by Morgan Guaranty Trust Company (currently doing business as JPMorgan) On March 25 2004 the Council approved an extension to the Letter of Credit and Reimbursement Agreement with JPMorgan

On November 21 1996 the Council approved a \$350 million commercial paper program for the Water/Wastewater and Electric Utilities This request if approved will allow the City of Austin to extend the letter of credit backing the commercial paper program for a period of three years The existing Letter of Credit expires March 29 2007 JPMorgan's existing contract includes a fee of 33 basis points for the Letter of Credit and 24 basis points for the Commitment The City's financial advisor Public Financial Management Inc analyzed comparable Letter of Credit programs across the country and determined that market rates on Letter of Credit programs had dropped After negotiating with JPMorgan JPMorgan proposed a fee structure that is comparable to current market rates If this extension is approved JPMorgan's rates for the extended three year term will be 24 basis points for the Letter of Credit and 14 basis points for the Commitment

The commercial paper program provides lower borrowing costs eliminates arbitrage calculation and allows greater flexibility for the utility systems in managing its cash needs Prior to the implementation of the commercial paper program the utility systems utilized cash and long term debt to finance capital needs

The advantages of a commercial paper program are as follows

- 1 Borrowing costs that are significantly lower than long term borrowing rates Current commercial paper borrowing rates range from 3.5% to 4.0%
- 2 The utility system can borrow money in smaller amounts than would be practical or economical in a traditional bond sale

- 3 Quick access to the market and the flexibility to tailor debt issues to both market conditions and specific cash requirements
- 4 Proceeds from the sale of commercial paper are received immediately
- 5 The commercial paper program does not require debt service coverage or a reserve fund
- 6 The utility systems are afforded a broader diversification in their debt structure
- 7 Arbitrage rebate can be avoided by spending commercial paper proceeds upon receipt

At various time during the life of the commercial paper program when market conditions are favorable Council will be asked to issue long term refunding bonds to retire all or a portion of the outstanding commercial paper notes Thus allowing future projects to be financed under the program

The commercial paper program offers the utility systems the advantages of lower borrowing costs greater flexibility and a broader diversification of its debt structure