

AGENDA



Wednesday, June 18, 2008

**Treasury Office
RECOMMENDATION FOR COUNCIL ACTION****Item No. 57**

Subject: Approve an ordinance authorizing the City Manager to negotiate and execute an amendment to the Letter of Credit and Reimbursement Agreement between the City and Landesbank Hessen-Thüringen Girozentrale relating to the \$50,000,000 Combined Utility Systems Taxable Commercial Paper Notes program, and the approval of all related documents.

Amount and Source of Funding: The estimated \$250,000 Letter of Credit fee will be included in the Fiscal Year 2008-2009 Proposed Operating Budget of Austin Energy and is contingent upon approval of future funding. There is no unanticipated fiscal impact. A fiscal note is not required.

For More Information: Art Alfaro, Treasurer, 974-7882

Prior Council Action: On May 13, 1998 City Council approved establishment of a \$60 million Commercial Paper program and the related Letter of Credit with Landesbank Hessen-Thüringen Girozentrale. On June 29, 2000, City Council approved an increase in the taxable program from \$60 million to \$160 million and the related increase in the Letter of Credit with the Bank. The Letter of Credit was reduced from \$160 to \$50 million on April 1, 2003. On August 28, 2003, September 30, 2004, and June 23, 2005, the City Council approved extensions to the Letter of Credit and Reimbursement Agreement between the City and the Bank.

The City's taxable commercial paper program was established in 1998. The commercial paper program allows the City to issue short term debt for qualifying Capital Improvement Program to minimize borrowing costs. The commercial paper is refinanced into long term debt as the program capacity nears maximum levels established by City Council.

The current taxable commercial paper program is used to finance projects with a private use (i.e. chillers). Prior Council action provided for an extension of the letter of credit supporting the taxable commercial paper program to December 31, 2015. The extension included optional termination dates that the Bank could exercise upon notice to the City. The Bank has exercised this option and has provided notice to the City effective on July 13, 2008, the first optional termination date. Due to the current volatility in the credit facility market, the City elected to negotiate a new fee with the Bank in order to keep the letter of credit in place. The fee will be raised from .22% per annum to .50% per annum, but is still lower than the fee that could be attained by entering into a letter of credit with a new provider. This fee is paid quarterly and the first payment at the new rate will be due October 1, 2008.

The advantages of a commercial paper program are as follows:

1. Borrowing costs are significantly lower than long-term borrowing rates.
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.

At various times during the life of the commercial paper program, upon favorable market conditions, Council will be requested to approve issuance of long-term refunding bonds to retire all or a portion of the outstanding commercial paper notes. This allows additional capacity for future projects to be financed under the program.