

## AGENDA



Thursday, February 10, 2011

**Treasury Office**  
**RECOMMENDATION FOR COUNCIL ACTION**
**Item No. 27**

**Subject:** Approve an ordinance authorizing the renewal of the Letter of Credit and Reimbursement Agreements between the City of Austin and JPMorgan, State Street Bank, and Bank of America, related to the \$350,000,000 City of Austin, Texas Combined Utility Systems Commercial Paper Notes, Series A program, and approve all related documents.

**Amount and Source of Funding:** Funding for the Letter of Credit fee, estimated at \$1,700,000 is included in the Fiscal Year 2010-2011 Operating Budget of the Austin Water Utility and Electric Utility Department. The remaining estimate of \$10,500,000 Letter of Credit fee for the period October 1, 2011 thru October 1, 2014 will be included in the future proposed budgets of the Austin Water Utility and Electric Utility Department.

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

**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 22, 2007, and on February 25, 2010, the Council approved extensions to the Letter of Credit and Reimbursement Agreement with JPMorgan. JPMorgan serves as the administrator and all three banks provides credit enhancement services.

On November 21, 1996, Council approved a \$350 million commercial paper program for the Water/Wastewater and Electric Utilities. The commercial paper program provides lower borrowing costs, eliminates the need for arbitrage calculations, and allows greater flexibility for the utility systems in managing cash needs for capital projects. 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 include:

- Borrowing costs that are significantly lower than long-term borrowing rates. Current commercial paper borrowing rates range from 0.29% to 0.36%
- The utility system can borrow money in smaller amounts than would be practical or economical in a traditional bond sale.
- Quick access to the market and the flexibility to tailor debt issues to both market conditions and specific cash requirements.
- Proceeds from the sale of commercial paper are received immediately.
- The commercial paper program does not require debt service coverage or a reserve fund.
- The utility systems are afforded a broader diversification in their debt structure.

At various times 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. The most recent refunding occurred in November 2010. Once a refunding is complete, it frees up funding authority in the commercial paper program for additional projects.

The purpose of this Council action is to authorize a Letter of Credit and Reimbursement Agreement related to the \$350 million commercial paper program for the Water/Wastewater and Electric Utilities. This instrument is necessary to provide liquidity for purchasers of the securities in the event there are no buyers in the market for the City's commercial paper, and secondly, as a guarantor for the commercial paper were the City unable to make debt service payments on the commercial paper. The existing letter of credit expires on March 29, 2011. This request, upon approval, will allow the City of Austin to renew this letter of credit for a period of 3 years and 6 months, expiring October 1, 2014.

There are two cost components to a letter of credit – the credit fee and the commitment fee. The existing contract includes a fee of 125 basis points for the letter of credit and 115 basis points for the commitment. The rates for the renewal will decrease to 90 basis points for the letter of credit and 85 basis points for the commitment. The new fee structure will save the City approximately \$4,600,000 in fees over the life of the contract.

The City of Austin Treasury Office contacted twelve firms to generate interest from additional providers and to lower costs. The team of JPMorgan, State Street, and Bank of America responded with the best bid. With the assistance of the City's financial advisor, Public Financial Management, the City was able to obtain more favorable bid results than were initially received.

The City will enter into a Letter of Credit and Reimbursement Agreement with JPMorgan, as agent for the other two participating banks. The team's share will be as follows:

JP Morgan:	\$159,375,000
State Street:	\$130,000,000
Bank of America	\$100,000,000

Total: \$389,375,000 (\$350,000,000 principal + \$39,375,000 interest)