

A G E N D A



Recommendation for Council Action

Austin City Council	Item ID	7361	Agenda Number	85.
---------------------	---------	------	---------------	-----

Meeting Date:	6/23/2011	Department:	Treasury
---------------	-----------	-------------	----------

Subject

Approve an ordinance authorizing a Letter of Credit and Reimbursement Agreement between the City of Austin and JPMorgan relating to the \$50,000,000 City of Austin, Texas Combined Utility Systems Taxable Commercial Paper Notes, and approve all related documents.

Amount and Source of Funding

Funding for the Letter of Credit fee, estimated at \$295,000 for FY 2011 is included in the Fiscal Year 2010-2011 Approved Operating Budget of the Austin Water Utility and Electric Utility Department. The remaining approximately \$1.2 million Letter of Credit fee for the period 10/01/2011 thru 7/15/2014 will be included in the future proposed budgets of the Austin Water Utility and Electric Utility Department.

Fiscal Note

Purchasing Language:	
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 (the "Bank"). 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 of Austin and the Bank.
For More Information:	Art Alfaro, Treasurer 974-7882
Boards and Commission Action:	
MBE / WBE:	
Related Items:	

Additional Backup Information

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 capacity nears maximum levels established by 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. This 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, 2011. The City received five proposals to provide a replacement credit facility (Citibank, JPMorgan, Scotia Capital, Union Bank and Wells Fargo). The proposal providing the most favorable fee, terms and conditions was from JPMorgan. This council request, if approved, will allow the City of Austin to replace the terminating letter of credit with a new letter of credit from JPMorgan. The new letter of credit will be for 3 years ending July 15, 2014.

A necessary component of the commercial paper program is a Letter of Credit and Reimbursement Agreement. A Letter of Credit serves two functions: first, to provide liquidity as a purchaser 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 payments for the debt service on the commercial paper. There are two cost components to a Letter of Credit – the credit fee and the commitment fee. The agreement includes a fee of 90 basis points for Letter of Credit and 85 basis points for the Commitment.

The commercial paper program provides lower borrowing costs, eliminates the need for an 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.
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 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. Once a refunding is complete, it frees up funding in the commercial paper program for additional projects. The commercial paper program offers the utility systems the advantages of lower borrowing costs, greater flexibility and a broader diversification of its debt structure.