

AGENDA



Recommendation for Council Action

Austin City Council	Item ID	19225	Agenda Number	45.
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Meeting Date:	11/8/2012	Department:	Treasury
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Subject

Approve an ordinance authorizing the replacement of the Letter of Credit and Reimbursement Agreement between the City of Austin and Bank of America related to the \$350,000,000 City of Austin, Texas Combined Utility Systems Commercial Paper Notes, Series A program, with Letter of Credit and Reimbursement Agreements issued by JPMorgan and State Street, and authorizing all necessary related documents, actions, and fees.

Amount and Source of Funding

Funding for the Letter of Credit fees, estimated at \$3,500,000 for FY2013 as well as the one time cost of issuance was included in the Fiscal Year 2012-13 Approved Operating Budgets of Austin Water Utility and Austin Energy.

Fiscal Note

Purchasing Language:

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, February 25, 2010, and February 10, 2011 the Council approved extensions to the Letter of Credit and Reimbursement Agreement with JPMorgan as administrator for credit enhancement services to be provided by JPMorgan, State Street, and Bank of America.

For More Information: Art Alfaro, Treasurer 974-7882

Boards and Commission Action:

MBE / WBE:

Related Items:

Additional Backup Information

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 an arbitrage calculation and allows greater flexibility for the utility systems in managing cash needs. At various times during the life of the commercial paper program, when market conditions are favorable, Council is asked to issue long-term refunding bonds to retire all or a portion of the outstanding commercial paper notes. A necessary component of the commercial paper program is a Letter of Credit (LOC). The LOC serves two functions: first, to provide liquidity for the commercial paper securities in the event there are no buyers in the market for the City's commercial paper, and second, as a guarantor for the commercial paper should the City be unable to make debt service payments on the commercial paper.

The current Letter of Credit, which expires October 1, 2014, totals \$389,375,000 (\$350,000,000 in principal and \$39,375,000 in interest). It is administered by JPMorgan and the credit enhancement services are provided by JPMorgan, State Street, and Bank of America. Each firm receives a fee equal to 90 basis points on the Letter of Credit (used) and 85 basis points for the commitment (unused portion). The total maximum facility per bank is currently:

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

On June 21, 2012, Bank of America was downgraded to "A2" (long-term rating) and "P-2" (short-term rating) by Moody's Investors Service. In order to attract the broadest universe of commercial paper buyers and the most attractive borrowing rates, the bank short-term rating needs to be in the highest rating category. JPMorgan and State Street have short-term ratings of "P-1," which is the highest category. Therefore, it is recommended that the Bank of America Letter of Credit be terminated and their commitment split between JPMorgan and State Street. This will allow the City to continue to sell commercial paper at the lowest possible borrowing rates.

Upon release of Bank of America from the commitment and the redistribution of the LOC to JPMorgan and State Street, the maximum facility per bank will be as follows:

JPMorgan:	\$209,375,000
State Street:	\$180,000,000

All other terms and conditions of the current agreement would remain in place.

In addition to the ongoing LOC fees of \$3,500,000, there will be certain one-time cost of issuance fees associated with the execution of this proposed action. The estimated total for the one time fees is \$125,000 and will be paid to the following entities acting in the capacity noted: Public Financial Management – Financial Advisor; Bracewell & Giuliani LLP – Bond Counsel; McCall, Parkhurst & Horton – Disclosure Counsel; Andrews Kurth – Bank Counsel; Moody's Investor Services, Fitch Ratings, and Standard & Poor's – Rating Agencies; and State of Texas – Attorney General.