

A G E N D A



Recommendation for Council Action

Austin City Council	Item ID	73169	Agenda Number	12.
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Meeting Date:	8/31/2017	Department:	Treasury
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Subject

Approve an ordinance authorizing the issuance of Combined Utility Systems Tax Exempt Interim Financing Notes in a maximum principal amount at any one time outstanding of \$400,000,000 to provide low interest rates on interim financing on utility projects; and authorize and approve the execution of all related agreements, including a Dealer Agreement with Goldman, Sachs & Co., an Issuing and Paying Agent Agreement with U.S. Bank N.A., a Revolving Credit Agreement, a Note Purchase Agreement, a Fee Letter, and a Note Paying Agent Agreement all with JPMorgan Chase Bank, National Association related to the City's Combined Utility Systems Program Notes, comprised of a Commercial Paper Sub-Series and a Direct Purchase Sub-Series, and approve and authorize all related documents and fees.

Amount and Source of Funding

Funding in the amount of \$3,281,250 anticipated for the Letter of Credit fee and one-time costs of issuance was included in the Fiscal Year 2017-18 Proposed Operating Budgets of Austin Energy and Austin Water Utility.

Fiscal Note

There is no unanticipated fiscal impact. A fiscal note is not required

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 (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. On November 8, 2012 the City Council approved an ordinance, which replaced the previous Letter of Credit and Reimbursement Agreement with a new Letter of Credit and Reimbursement Agreement, which removed Bank of America as a facility provider. On August 28, 2014 the City Council approved an ordinance, which replaced the previous Letter of Credit and Reimbursement Agreement with a new Letter of Credit and Reimbursement Agreement, which removed JPMorgan and State Street as the facility provider.

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

Council Committee,
Boards and
Commission Action:

MBE / WBE:

Related Items:

Additional Backup Information

On November 21, 1996, council approved a \$350 million tax-exempt commercial paper program for the Water/Wastewater and Electric Utilities. On August 28, 2014, council approved an increase of authority to issue tax-exempt commercial paper notes to \$400,000,000. 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 has been a Letter of Credit (LOC). The LOC served 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 secondly, as a guarantor for the commercial paper should the City be unable to make debt service payments on the commercial paper.

The current LOC, which expires October 15, 2017, totals \$435,506,850 (\$400,000,000 in principal and \$35,506,850 in interest). It is administered by The Bank of Tokyo-Mitsubishi UFJ and the credit enhancement services are also provided by The Bank of Tokyo-Mitsubishi UFJ. The firm receives a fee equal to 40.625 basis points on the maximum amount of the LOC.

Staff and the City's financial advisor, PFM Financial Advisors, L.L.C., sought bids to replace the expiring LOC. 12 banks were solicited and six banks responded. Bids were submitted for one year, two year, three year, four, and five year terms and it is staff's recommendation that the City accept the bid submitted by JPMorgan Chase Bank, National Association (JPMorgan) for a three year term in order to realize cost savings for the next three years.

The JPMorgan bid provides that the LOC would be replaced with a line of credit (line of credit) issued under a Revolving Credit Agreement. The line of credit would provide liquidity in the event maturing commercial paper could not be remarketed by the commercial paper dealer. The JPMorgan bid also provides that as a component of the program, JPMorgan would directly purchase notes from the City. Commercial paper notes would have a maximum maturity of 270 days; direct purchase notes would have a maximum maturity of 364 days.

This Council request, if approved, will allow the City of Austin to replace the expiring LOC with the line of credit issued by JPMorgan and authorize the direct sale of notes to JPMorgan. If council approves, the City will enter into a Revolving Credit Agreement with JPMorgan in an amount equal to outstanding principal of \$400,000,000, plus the required interest component. If council approves, the City also will enter into a Note Purchase Agreement with JPMorgan, in which the City would agree to sell to JPMorgan, and JPMorgan would agree to purchase from the City, no less than \$4 million in direct purchase notes. The facility fee rate for the line of credit is proposed at 25 basis points for the entire \$400 million, which is lower than the current fee rate of 40.625 basis points for the LOC supporting the program. The lower fee will decrease annual costs by approximately \$2.1 million in Fiscal Year 2018, Fiscal Year 2019, and Fiscal Year 2020.

In addition to the ongoing LOC fee, there will be certain one-time costs associated with execution of this transaction. The estimated total for these fees is \$600,000 and will be paid to the following entities acting in the capacity noted:

Chapman and Cutler—Bank Counsel
McCall, Parkhurst & Horton L.L.P.—City Bond Counsel
Fullbright & Jaworski L.L.P. —City Disclosure Counsel
PFM Financial Advisors, L.L.C—Financial Advisor
Fitch—Rating Agency
Moody's—Rating Agency
Standard & Poor's—Rating Agency
State of Texas Attorney General