



**Debt Issuance
CITY OF AUSTIN
RECOMMENDATION FOR COUNCIL ACTION**

**AGENDA ITEM NO.: 6
AGENDA DATE: Thu 03/25/2004
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SUBJECT: Approve an ordinance authorizing the extension of the Letter of Credit and Reimbursement Agreement between the City of Austin and JPMorgan relating to the "\$350,000,000 City of Austin, Texas, Combined Utility Systems Commercial Paper Notes, Series A" program, and the approval of all related documents.

AMOUNT & SOURCE OF FUNDING: The estimated \$1,200,000 Letter of Credit fee will be included in the Fiscal Year 2004-2005 Proposed Operating Budget of the Austin Water Utility and Electric Utility Department. There is no unanticipated fiscal impact. A fiscal note is not required.

FISCAL NOTE: There is no unanticipated fiscal impact. A fiscal note is not required.

REQUESTING Financial and **DIRECTOR'S**
DEPARTMENT: Administrative Services - **AUTHORIZATION:** Vickie Schubert
Treasury

FOR MORE INFORMATION CONTACT:

PRIOR COUNCIL ACTION: On November 21, 1996, City Council approved a \$350 million commercial paper program for the Water/Wastewater (now Austin Water Utility) and Electric Utilities, including execution of all related documents such as a Dealer Agreement, Paying Agent Agreement and Reimbursement Agreement for the issuance of a Letter of Credit.

BOARD AND COMMISSION ACTION: N/A

On November 21, 1996, the Council approved a \$350 million commercial paper program for the Water/Wastewater (now Austin Water Utility) and Electric Utilities. Along with the approval of the commercial paper program, Council approved the execution of all related documents, including a Letter of Credit and Reimbursement Agreement. The approved Letter of Credit backing the commercial paper program is scheduled to expire March 31, 2004. This request will allow the City of Austin to continue the Commercial Paper program by extending the Letter of Credit to March 31, 2007.

The commercial paper program provides lower borrowing costs, eliminates 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. Current commercial paper borrowing rates range from 0.85% to 1.08%
2. The utility system can borrow money in smaller amounts than would be practical or economical in a



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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 nor 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, 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. Thus, allowing future projects to be financed under the program.

The commercial paper program offers the utility systems the advantages of lower borrowing costs, greater flexibility and a broader diversification of its debt structure.

ORDINANCE NO. 040325 - __

AN ORDINANCE approving the extension of the expiration date of Letter of Credit and approving and authorizing the execution of Amendment Two to Letter of Credit Reimbursement Agreement relating to the "City of Austin, Texas, Combined Utility Systems Commercial Paper Notes, Series A"; resolving other matters incident and related thereto; and declaring an emergency.

WHEREAS, pursuant to Ordinance No. 930318-A, as amended by Ordinance No. 961121-A and Ordinance No. 980513-A (collectively, the "Ordinance"), "CITY OF AUSTIN, TEXAS COMBINED UTILITY SYSTEMS COMMERCIAL PAPER NOTES, SERIES A" (the "Notes") up to an aggregate principal amount of \$350,000,000 have been duly authorized, issued and sold and resold by the City of Austin, Texas (the "City") to finance the costs of additions, improvements and extensions to the City's Waterworks and Sewer System and the City's Electric Light and Power System (hereinafter collectively referred to as the "Systems" in accordance with the provisions of V.T.C.A., Government Code, Chapter 1371; and

WHEREAS, to provide liquidity and security for the payment of such Notes, the City entered into a Letter of Credit Reimbursement Agreement, dated as of April 1, 2000, with JPMorgan Chase Bank (as successor to Morgan Guaranty Trust Company of New York), Bayerische Landesbank (as replacement Bank for Dexia Credit Local de France), and State Street Bank and Trust Company, as amended by Amendment One to Letter of Credit Reimbursement Agreement, dated as of June 12, 2002 (as so amended, the "Reimbursement Agreement") ; and

WHEREAS, the expiration date for the Letter of Credit is March 31, 2004 and the City has submitted a request to JPMorgan Chase Bank, as Agent, for the extension of such expiration date; and

WHEREAS, the Banks have agreed to extend the expiration date for the Letter of Credit to March 29, 2007 conditioned upon a change in the terms of the commitment fee and letter of credit fee as set forth in an Amendment Two to Letter of Credit Reimbursement Agreement; and

WHEREAS, Amendment Two to Letter of Credit Reimbursement Agreement has been submitted to the City for approval and execution; and

WHEREAS, the City Council hereby finds and determines that Amendment Two to Letter of Credit Reimbursement Agreement with respect to the Notes should be approved and authorization for its execution provided; now, therefore,

BE IT ORDAINED BY THE CITY COUNCIL OF THE CITY OF AUSTIN, TEXAS:

SECTION 1. Approval and Authorization for Execution. The extension of the expiration date of the Letter of Credit to March 29, 2007 is hereby approved, and the Amendment Two to Letter of Credit Reimbursement Agreement (the "Amendment") among the City and JPMorgan Chase Bank (successor to Morgan Guaranty Trust Company of New York), State Street Bank and Trust Company and Bayerische Landesbank, substantially in the form attached hereto as Exhibit A and incorporated herein by reference as a part here of for all purposes, is hereby approved. The City Manager, City Clerk and City Attorney are hereby authorized and directed to execute the Amendment for and on behalf of the City.

SECTION 2. Ratification. Save and except as amended by Amendment Two to Letter of Credit Reimbursement Agreement, dated and effective as of March ___, 2004, no other changes or modification are approved to be made to the Reimbursement Agreement, and such Reimbursement Agreement as modified by the Amendment is hereby declared to be the Reimbursement Agreement by and between the City and the Banks from and after its execution and effective date of March ___, 2004.

SECTION 3: Public Meeting. It is officially found, determined, and declared that the meeting at which this Ordinance is adopted was open to the public and public notice of the time, place, and subject matter of the public business to be considered at such meeting, including this Ordinance, was given; all as required by V.T.C.A., Government Code, Chapter 551, as amended.

SECTION 4: Emergency. The public importance of this measure and the fact that the extension of the expiration date of the Letter of Credit and the execution of the Amendment in connection therewith should be approved as quickly as possible constitute an emergency for the immediate preservation of the public peace, health and safety of the citizens of the City and creates an emergency requiring the suspension of the rule providing for ordinances to be read on three separate days; and such rule relating to the passage of ordinances and the Charter provision relating to the effective date of ordinances are hereby suspended and this Ordinance is hereby passed as an emergency measure and shall be effective immediately upon its passage and adoption as provided by the Charter of the City.

ADOPTED this 25th day of March, 2004.

CITY OF AUSTIN, TEXAS

Mayor

ATTEST:

City Clerk

APPROVED:

City Attorney

(SEAL)