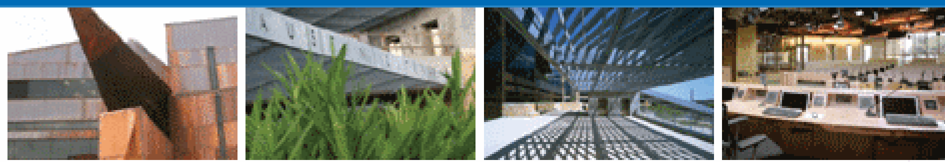
A U S T I N C I T Y C O U N C I L
AGENDA



Thursday, February 25, 2010

Treasury Office **Item No. 53**
RECOMMENDATION FOR COUNCIL ACTION

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 and Source of Funding: Of the approximately $4,225,000 Letter of Credit Fee, half is available in the Fiscal Year 2009-2010 Operating Budget of the Austin Water Utility and Austin Energy, the remaining half will be included in the Fiscal Year 2010-2011 Proposed Operating Budget of those departments.

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 25, 2004 and on March 22, 2007, the Council approved extensions to the Letter of Credit and Reimbursement Agreement with JPMorgan.

On November 21, 1996, the Council approved a $350 million commercial paper program for the Water/Wastewater and Electric Utilities. This request, if approved, will allow the City of Austin to extend the letter of credit backing the commercial paper program for a period of 364 days. The existing Letter of Credit expires March 29, 2010. JPMorgan's existing contract includes a fee of 24 basis points for Letter of Credit and 14 basis points for the Commitment. Due to a lack of providers currently in the market, JP Morgan's rates for the extended 364 day term will be increased to 125 basis points for the Letter of Credit and 115 basis points for the Commitment. The Letter of Credit fee (125 basis points) is charged for the amount of commercial paper issued and outstanding, while the Commitment fee (115) is charged for the difference between the $350 million total commitment amount (that is, the total program amount) and the amount of outstanding commercial paper. 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 .30% to .45%.

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.

7. Arbitrage rebate can be avoided by spending commercial paper proceeds upon receipt.

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.