

# AGENDA



## Recommendation for Council Action

Austin City Council - Commissioner's Court Meeting	Item ID	34778	Agenda Number	77.
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Meeting Date:	8/28/2014	Department:	Treasury
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### Subject

Approve an ordinance authorizing the issuance of Tax Exempt Commercial Paper Notes in a maximum principal amount outstanding at any one time of \$400,000,000 to provide low interest rates on interim financing on utility projects; and approving and authorizing the negotiation and execution of all agreements related to the City's Combined Utility Systems Commercial Paper Notes, Series A, all related documents, and fees.

### Amount and Source of Funding

Funding in the amount of \$2,048,000 anticipated for the Letter of Credit fee and one-time costs of issuance was included in the Fiscal Year 2014-2015 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.
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 tax-exempt 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 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 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 and State Street. Each firm receives a fee equal to 90 basis points on the LOC (used) and 85 basis points for the commitment (unused portion). The total maximum facility per bank is currently \$209,375,000 with JPMorgan and \$180,000,000 with State Street.

Staff and the City's financial advisor, Public Financial Management, sought bids to replace the expiring LOC. 10 banks were solicited and six banks responded. Bids were submitted for one year, two year, and three year terms. It is staff's recommendation that the City accept the bid submitted by Bank of Tokyo-Mitsubishi UFJ (Bank of Tokyo) for three year term in order to realize cost savings for the next three years. Bank of Tokyo has agreed to an expiration date of October 15, 2017.

This Council request, if approved, will allow the City of Austin to replace the expiring LOC with one from Bank of Tokyo, and will increase the tax exempt commercial paper program from \$350,000,000 to \$400,000,000. In order to take advantage of the lower borrowing costs associated with commercial paper versus the borrowing costs associated with long-term debt, and to reduce the frequency with which the utilities must issue long-term revenue bonds to refund short-term commercial paper issuances, the program is being increased by \$50,000,000 to a total of \$400,000,000 in outstanding principal. If Council approves, the City will enter into a Letter of Credit Reimbursement Agreement with Bank of Tokyo in an amount equal to outstanding principal of \$400,000,000, plus the required interest component. The facility fee rate for the new LOC is proposed at 37.5 basis points for the first \$150 million and 42.5 basis points for the next \$250 million, which is lower than the current fee rate of 90 basis points for the utilized portion of the program and 85 basis points for the unutilized portion of the program. Even with the program's increase in principal to \$400,000,000, the lower fee will decrease annual costs by approximately \$1.5 million in FY15 and approximately \$1.9 million in FY16 and FY17.

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 \$400,000 and will be paid to the following entities acting in the capacity noted:

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